

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2022

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

PIONEER BANCORP, INC.

(Exact Name of Company as Specified in its Charter)

Maryland
(State of Other Jurisdiction of
Incorporation)

001-38991
(Commission File No.)

83-4274253
(I.R.S. Employer Identification No.)

652 Albany Shaker Road, Albany, New York 12211
(Address of Principal Executive Office) (Zip Code)

(518) 730-3025
(Issuer's Telephone Number including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01	PBFS	The Nasdaq Stock Market, LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES ☐ NO ☒

As of May 10, 2022, there were 25,977,679 shares outstanding of the registrant's common stock.

PIONEER BANCORP, INC.
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PART I - FINANCIAL INFORMATION

Item 1 – Consolidated Financial Statements

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CONDITION (unaudited)
(in thousands, except share and per share amounts)

	March 31, 2022	June 30, 2021
Assets		
Cash and due from banks	\$ 32,756	\$ 24,492
Federal funds sold	3,186	180
Interest-earning deposits with banks	428,824	300,291
Cash and cash equivalents	464,766	324,963
Securities available for sale, at fair value	417,743	264,602
Securities held to maturity (fair value of \$23,877 at March 31, 2022; and \$10,919 at June 30, 2021)	25,009	10,878
Equity securities, at fair value	2,220	2,879
Federal Home Loan Bank of New York stock	1,153	1,215
Net loans receivable	966,792	1,081,799
Accrued interest receivable	4,391	4,046
Premises and equipment, net	37,773	38,918
Bank-owned life insurance	17,194	17,212
Goodwill	8,799	7,292
Other intangible assets, net	2,597	1,843
Other assets	25,695	40,605
Total assets	<u>\$ 1,974,132</u>	<u>\$ 1,796,252</u>
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing deposits	\$ 602,383	\$ 504,888
Interest bearing deposits	1,109,031	1,026,008
Total deposits	1,711,414	1,530,896
Mortgagors' escrow deposits	3,462	5,811
Other liabilities	22,171	21,723
Total liabilities	<u>1,737,047</u>	<u>1,558,430</u>
Commitments and contingent liabilities - See Note 10		
Shareholders' Equity		
Preferred stock (\$0.01 par value, 5,000,000 shares authorized, no shares issued or outstanding as of March 31, 2022 and June 30, 2021)	—	—
Common stock (\$0.01 par value, 75,000,000 shares authorized, 25,977,679 shares issued and outstanding as of March 31, 2022 and June 30, 2021)	260	260
Additional paid in capital	113,755	113,815
Retained earnings	148,727	140,811
Unallocated common stock of Employee Stock Ownership Plan ("ESOP")	(11,427)	(11,939)
Accumulated other comprehensive loss	(14,230)	(5,125)
Total shareholders' equity	<u>237,085</u>	<u>237,822</u>
Total liabilities and shareholders' equity	<u>\$ 1,974,132</u>	<u>\$ 1,796,252</u>

See accompanying notes to unaudited consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)
(in thousands, except share and per share amounts)

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2022	2021	2022	2021
Interest and dividend income:				
Loans	\$ 9,312	\$ 10,608	\$ 29,440	\$ 32,168
Securities	747	249	1,783	859
Interest-earning deposits with banks and other	186	83	491	217
Total interest and dividend income	10,245	10,940	31,714	33,244
Interest expense:				
Deposits	326	423	1,027	1,650
Borrowings and other	13	15	53	62
Total interest expense	339	438	1,080	1,712
Net interest income	9,906	10,502	30,634	31,532
Provision for loan losses	—	1,250	250	3,550
Net interest income after provision for loan losses	9,906	9,252	30,384	27,982
Noninterest income:				
Bank fees and service charges	1,516	1,671	4,776	4,934
Insurance and wealth management services	1,798	2,087	5,360	5,318
Net gain on equity securities	26	217	144	1,632
Net gain on securities transactions	—	—	4	—
Net gain on sale of loans	—	—	3	27
Net gain on disposal of assets	213	—	275	16
Other	60	108	200	406
Total noninterest income	3,613	4,083	10,762	12,333
Noninterest expense:				
Salaries and employee benefits	6,531	6,741	18,994	19,623
Net occupancy and equipment	1,736	1,660	5,173	4,829
Data processing	978	922	3,057	2,690
Advertising and marketing	149	198	386	524
Federal Deposit Insurance Corporation ("FDIC") insurance premiums	170	243	587	724
Professional fees	850	857	2,395	2,801
Litigation-related expense	1,200	—	1,200	—
Employee retention credit	—	—	(5,029)	—
Other	1,449	1,077	4,095	3,341
Total noninterest expense	13,063	11,698	30,858	34,532
Income before income taxes	456	1,637	10,288	5,783
Income tax expense	154	296	2,372	1,153
Net income	\$ 302	\$ 1,341	\$ 7,916	\$ 4,630
Net earnings per common share:				
Basic	\$ 0.01	\$ 0.05	\$ 0.31	\$ 0.18
Diluted	\$ 0.01	\$ 0.05	\$ 0.31	\$ 0.18
Weighted average shares outstanding - basic and diluted	25,118,467	25,067,550	25,112,102	25,061,186

See accompanying notes to unaudited consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (unaudited)
(in thousands)

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2022	2021	2022	2021
Net income	\$ 302	\$ 1,341	\$ 7,916	\$ 4,630
Other comprehensive loss:				
Unrealized losses on securities:				
Unrealized holding losses arising during the period	(9,974)	(298)	(12,323)	(416)
Reclassification adjustment for gains included in net income	—	—	(4)	—
	(9,974)	(298)	(12,327)	(416)
Tax benefit	(2,607)	(77)	(3,222)	(109)
	(7,367)	(221)	(9,105)	(307)
Defined benefit plan:				
Change in funded status of defined benefit plans	—	—	—	—
Reclassification adjustment for amortization of net actuarial loss	—	—	—	—
	—	—	—	—
Tax effect	—	—	—	—
	—	—	—	—
Total other comprehensive loss	(7,367)	(221)	(9,105)	(307)
Comprehensive (loss) income	\$ (7,065)	\$ 1,120	\$ (1,189)	\$ 4,323

See accompanying notes to unaudited consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)
(in thousands, except share and per share amounts)

	<u>Common Stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Unallocated</u>	<u>Accumulated Other</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Earnings</u>	<u>Common</u>	<u>Comprehensive</u>	<u>Shareholders'</u>
			<u>Capital</u>		<u>Stock of ESOP</u>	<u>Loss</u>	<u>Equity</u>
Balance as of July 1, 2020	25,977,679	\$ 260	\$ 113,963	\$ 139,734	\$ (12,621)	\$ (17,370)	\$ 223,966
Net income	—	—	—	1,394	—	—	1,394
Other comprehensive loss	—	—	—	—	—	(72)	(72)
ESOP shares committed to be released (12,729 shares)	—	—	(60)	—	171	—	111
Balance as of September 30, 2020	<u>25,977,679</u>	<u>\$ 260</u>	<u>\$ 113,903</u>	<u>\$ 141,128</u>	<u>\$ (12,450)</u>	<u>\$ (17,442)</u>	<u>\$ 225,399</u>
Net income	—	—	—	1,895	—	—	1,895
Other comprehensive loss	—	—	—	—	—	(14)	(14)
ESOP shares committed to be released (12,729 shares)	—	—	(42)	—	170	—	128
Balance as of December 31, 2020	<u>25,977,679</u>	<u>\$ 260</u>	<u>\$ 113,861</u>	<u>\$ 143,023</u>	<u>\$ (12,280)</u>	<u>\$ (17,456)</u>	<u>\$ 227,408</u>
Net income	—	—	—	1,341	—	—	1,341
Other comprehensive loss	—	—	—	—	—	(221)	(221)
ESOP shares committed to be released (12,729 shares)	—	—	(28)	—	171	—	143
Balance as of March 31, 2021	<u>25,977,679</u>	<u>\$ 260</u>	<u>\$ 113,833</u>	<u>\$ 144,364</u>	<u>\$ (12,109)</u>	<u>\$ (17,677)</u>	<u>\$ 228,671</u>
	<u>Common Stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Unallocated</u>	<u>Accumulated Other</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Earnings</u>	<u>Common</u>	<u>Comprehensive</u>	<u>Shareholders'</u>
			<u>Capital</u>		<u>Stock of ESOP</u>	<u>Loss</u>	<u>Equity</u>
Balance as of July 1, 2021	25,977,679	\$ 260	\$ 113,815	\$ 140,811	\$ (11,939)	\$ (5,125)	\$ 237,822
Net income	—	—	—	1,357	—	—	1,357
Other comprehensive loss	—	—	—	—	—	(187)	(187)
ESOP shares committed to be released (12,729 shares)	—	—	(17)	—	171	—	154
Balance as of September 30, 2021	<u>25,977,679</u>	<u>\$ 260</u>	<u>\$ 113,798</u>	<u>\$ 142,168</u>	<u>\$ (11,768)</u>	<u>\$ (5,312)</u>	<u>\$ 239,146</u>
Net income	—	—	—	6,257	—	—	6,257
Other comprehensive loss	—	—	—	—	—	(1,551)	(1,551)
ESOP shares committed to be released (12,729 shares)	—	—	(13)	—	171	—	158
Balance as of December 31, 2021	<u>25,977,679</u>	<u>\$ 260</u>	<u>\$ 113,785</u>	<u>\$ 148,425</u>	<u>\$ (11,597)</u>	<u>\$ (6,863)</u>	<u>\$ 244,010</u>
Net income	—	—	—	302	—	—	302
Other comprehensive loss	—	—	—	—	—	(7,367)	(7,367)
ESOP shares committed to be released (12,729 shares)	—	—	(30)	—	170	—	140
Balance as of March 31, 2022	<u>25,977,679</u>	<u>\$ 260</u>	<u>\$ 113,755</u>	<u>\$ 148,727</u>	<u>\$ (11,427)</u>	<u>\$ (14,230)</u>	<u>\$ 237,085</u>

See accompanying notes to unaudited consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
(in thousands)

	For the Nine Months Ended March 31,	
	2022	2021
Cash flows from operating activities:		
Net income	\$ 7,916	\$ 4,630
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,047	2,137
Provision for loan losses	250	3,550
Net amortization on securities	1,185	524
ESOP compensation	452	382
Loss on bank-owned life insurance	18	17
Net gain on the sale or disposal of premises and equipment and other real estate owned	(275)	(16)
Proceeds from sale of loans	108	317
Net gain on sale of loans	(3)	(27)
Net gain on equity securities	(144)	(1,632)
Net gain on sales of available for sale securities	(4)	—
Deferred tax expense (benefit)	555	(418)
Increase in accrued interest receivable	(345)	(641)
Decrease in other assets	17,211	22,900
Decrease in other liabilities	(410)	(4,490)
Net cash provided by operating activities	28,561	27,233
Cash flows from investing activities:		
Proceeds from maturities, paydowns and calls of securities available for sale	58,976	43,129
Proceeds from sales of securities available for sale	5,267	—
Purchases of securities available for sale	(230,892)	(168,467)
Proceeds from maturities and paydowns of securities held to maturity	2,982	3,397
Purchases of securities held to maturity	(17,113)	(8,377)
Proceeds from sales of equity securities	803	7,474
Net purchases (redemptions) of FHLBNY stock	63	(133)
Net decrease in loans receivable	114,102	5,790
Purchases of premises and equipment	(648)	(340)
Proceeds from sale of premises and equipment, and other real estate owned	1,190	115
Cash paid for acquisitions	(1,657)	—
Net cash used in investing activities	(66,927)	(117,412)
Cash flows from financing activities:		
Net increase in deposits	180,518	264,410
Net decrease in mortgagors' escrow deposits	(2,349)	(2,577)
Net cash provided by financing activities	178,169	261,833
Net increase in cash and cash equivalents	139,803	171,654
Cash and cash equivalents at beginning of period	324,963	156,903
Cash and cash equivalents at end of period	\$ 464,766	\$ 328,557
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 1,082	\$ 1,722
Income taxes	\$ 1,000	\$ 500
Non-cash investing and financing activity:		
Loans transferred to other real estate owned	\$ 550	\$ —
Acquisition contingent consideration payable	\$ 858	\$ —

See accompanying notes to unaudited consolidated financial statements.

PIONEER BANCORP, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2022

1. NATURE OF OPERATIONS

Nature of Operations

Pioneer Bancorp, Inc. (the “Company”) is a mid-tier stock holding company whose wholly owned subsidiary is Pioneer Bank (the “Bank”). The Bank is a New York State chartered savings bank whose wholly owned subsidiaries are Pioneer Commercial Bank, Anchor Agency, Inc. and Pioneer Financial Services, Inc. On July 17, 2019, the Company became the holding company of the Bank when it closed its stock offering in connection with the completion of the reorganization of the Bank into the two-tier mutual holding company form of organization.

The Company provides diversified financial services through the Bank and its subsidiaries, with 22 offices in the Capital Region of New York State. The Company, through its subsidiaries, offers a broad array of deposit, lending, and other financial services to individuals, businesses, and municipalities.

The interim financial data as of March 31, 2022 and for the three and nine months ended March 31, 2022 and 2021, respectively, is unaudited and reflects all normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented in conformance with accounting principles generally accepted in the United States of America (“GAAP”). The results of operations for the three and nine months ended March 31, 2022 are not necessarily indicative of the results to be achieved for the remainder of fiscal 2022 or any other period.

These unaudited interim consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K, for the year ended June 30, 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, the Bank, and the Bank’s wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ substantially from those estimates. The allowance for loan losses, valuation of securities and other financial instruments, the funded status and expense of employee benefit plans, legal proceedings and other contingent liabilities, and the realizability of deferred tax assets are particularly subject to change.

Reclassifications

Amounts in the prior period’s consolidated financial statements are reclassified whenever necessary to conform to the current period’s presentation.

Adoption of Recent Accounting Pronouncements

On July 1, 2021, the Company adopted Accounting Standards Update (“ASU”) 2018-14 related to guidance on “Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans”, which applies to all employers that sponsor defined benefit pension or other postretirement plans. The amendments modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. Disclosure requirements, including but not limited to, the following were removed from Subtopic 715-20: the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year; the amount and timing of plan assets expected to be returned to the employer and for public entities, the effects of a one-percentage-point change in assumed health care cost trend rates on the (a) aggregate of the service and interest cost components of net periodic benefit costs and (b) benefit obligation for postretirement health care benefits. The following disclosure requirements were added to Subtopic 715-20: (1) the weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates; and (2) an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. The amendments also clarify the disclosure requirements in paragraph 715-20-50-3, which state that the following information for defined benefit pension plans should be disclosed: (1) the projected benefit obligation (PBO) and fair value of plan assets for plans with PBOs in excess of plan assets; and (2) the accumulated benefit obligation (ABO) and fair value of plan assets for plans with ABOs in excess of plan assets. The adoption of this guidance did not have a material impact on our consolidated results of operations or financial position.

On October 1, 2021, the Company adopted ASU 2021-10 related to guidance on “Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistances”, which aims to provide increased transparency by requiring business entities to disclose information about certain types of government assistance they receive in the notes to the financial statements. Current GAAP has no specific authoritative guidance on the accounting for, or the disclosure of, government assistance received by business entities. The amendments in this Update improve financial reporting by requiring disclosures that increase the transparency of transactions with a government accounted for by applying a grant or contribution accounting model by analogy, including (1) the types of transactions, (2) the accounting for those transactions, and (3) the effect of those transactions on an entity’s financial statements. The amendments in this Update are effective for all entities within their scope for financial statements issued for annual periods beginning after December 15, 2021. See Note 3 for disclosures related to transactions with a government that are accounted for by analogizing to a contribution model.

Impact of Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (the “FASB”) issued ASU 2016-02 to its guidance on “Leases (Topic 842)”. The new leases standard applies a right-of-use (ROU) model that requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset and a liability to make lease payments. For leases with a term of 12 months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize an ROU asset or lease liability. The new leases standard requires a lessor to classify leases as either sales-type, direct financing or operating, similar to existing GAAP. Classification depends on the same five criteria used by lessees plus certain additional factors. The subsequent accounting treatment for all three lease types is substantially equivalent to existing GAAP for sales-type leases, direct financing leases, and operating leases. However, the new standard updates certain aspects of the lessor accounting model to align it with the new lessee accounting model, as well as with the new revenue standard under Topic 606. Lessees and lessors are required to provide certain qualitative and quantitative disclosures to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The adoption of this ASU will result in a gross up of the Consolidated Statements of Condition for right-of-use assets and associated lease liabilities for operating leases in which the Company is the lessee. In July 2018, the FASB issued ASU No. 2018-10, Codification Improvements to Topic 842 - Leases to address certain narrow aspects of the guidance issued in ASU No. 2016-02. In July 2018, the FASB issued ASU No. 2018-11, Leases (Topic 842): Targeted Improvements, which amends FASB Accounting Standards Codification (ASC), Leases (Topic 842), to (1) add an optional transition method that would permit entities to apply the new requirements by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the year of adoption, and (2) provide a practical expedient for lessors regarding the separation of the lease and non-lease components of a contract. In December 2018, the FASB issued ASU No. 2018-20, Narrow-Scope Improvements for Lessors, which addresses issues related to (1) sales tax and similar taxes collected from lessees, (2) certain lessor costs, and (3) recognition

of variable payments for contracts with lease and non-lease components. In June 2020, the FASB issued No. ASU 2020-05, Coronavirus Disease 2019 (“COVID-19”) in response to the pandemic which has adversely affected the global economy and caused significant and widespread business and capital market disruptions. The FASB is committed to supporting and assisting stakeholders during this difficult time. The FASB issued ASU 2020-05 as a limited deferral of the effective dates of certain ASUs, including ASU 2016-02 (including amendments issued after the issuance of the original) to provide immediate, near-term relief for certain entities for whom these ASUs are either currently effective or imminently effective. The Company plans to defer the adoption of the amendments in ASU 2016-02 to the fiscal year beginning July 1, 2022. The Company is evaluating the significance and other effects of adoption on the consolidated financial statements and related disclosures. The Company is performing its accounting analysis of its branch building and other leases underlying contracts. The Company is currently evaluating the potential impact on adoption of this ASU on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13 to its guidance on “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”. ASU 2016-13 requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model (referred to as the current expected credit loss (CECL) model). Under this model, entities will estimate credit losses over the entire contractual term of the instrument (considering estimated prepayments, but not expected extensions or modifications unless reasonable expectation of a troubled debt restructuring exists) from the date of initial recognition of that instrument. The ASU also replaces the current accounting model for purchased credit impaired loans and debt securities. The allowance for credit losses for purchased financial assets with a more-than insignificant amount of credit deterioration since origination (“PCD assets”), should be determined in a similar manner to other financial assets measured on an amortized cost basis. However, upon initial recognition, the allowance for credit losses is added to the purchase price (“gross up approach”) to determine the initial amortized cost basis. The subsequent accounting for PCD financial assets is the same expected loss model described above. Further, the ASU made certain targeted amendments to the existing impairment model for available-for-sale (AFS) debt securities. For an AFS debt security for which there is neither the intent nor a more-likely-than-not requirement to sell, an entity will record credit losses as an allowance rather than a write-down of the amortized cost basis. The amendments in this ASU are effective for the Company for the fiscal year beginning July 1, 2023. An entity will apply the amendments in this ASU through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). In November 2018, the FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments-Credit Losses, which aligns the implementation date for nonpublic entities’ annual financial statements with the implementation date for their interim financial statements and clarifies the scope of the guidance in the amendments in ASU 2016-13. In April 2019, the FASB issued ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments. ASU 2019-04 clarifies or addresses stakeholders’ specific issues about certain aspects of the amendments in Update 2016-13 related to measuring the allowance for loan losses under the new guidance. The effective dates and transition requirements for the amendments related to this Update are the same as the effective dates and transition requirements in Update 2016-13. In November 2019, the FASB issued ASU 2019-11, Codification Improvements to Topic 326, Financial Instruments Credit Losses clarifying certain amendments to various provisions of ASU No. 2016-13 relating to (1) purchased financial assets with credit deterioration, (2) financial assets secured by collateral maintenance agreements, (3) transition relief for troubled debt restructurings, and (4) disclosure relief when the practical expedient for accrued interest receivables is applied. The initial adjustment will not be reported in earnings and therefore will not have any material impact on our consolidated results of operations, but it is expected that it will have an impact on our consolidated financial position at the date of adoption of this ASU. At this time, we have not calculated the estimated impact that this ASU will have on our allowance for loan losses, however, we anticipate it will have a significant impact on the methodology process we utilize to calculate the allowance. Alternative methodologies are currently being considered. Data requirements and integrity are being reviewed and enhancements incorporated into standard processes. In March 2022, the FASB issued ASU No. 2022-02, amendments related to Troubled Debt Restructurings (TDRs) for all entities after they adopt 2016-13 and amendments related to vintage disclosures that affect public business entities with investments in financing receivables, under *Financial Instruments-Credit Losses (Topic 326)*. The amendments in the accounting guidance for TDRs by creditors eliminates the recognition and measurement guidance for TDRs in Subtopic 310-40. The effective dates for the amendments in this Update are the same as the effective dates in Update 2016-13. The amendments in this Update should be applied prospectively, except for the transition method related to the recognition and measurement of TDRs, an entity has the option to apply a modified retrospective transition method, resulting in a cumulative-effect adjustment to retained earnings

in the period of adoption. The Company is currently evaluating the potential impact on adoption of this ASU on our consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Income Taxes Topic 740. This update simplifies and improves accounting for income taxes by eliminating certain exceptions to the general rules and clarifying or amending other current guidance. The scope of FASB ASC Subtopic 740-10, Income Taxes -Overall, has been amended to require that, if a franchise (or similar tax) is partially based on income, (1) deferred tax assets and liabilities should be recognized and accounted for pursuant to FASB ASC 740, as should the amount of current tax expense that is based on income, and (2) any incremental amount incurred should be recorded as a non-income-based tax. Note that under the amended guidance, the effect of potentially paying a non-income-based tax in future years need not be considered in evaluating the realizability of deferred tax assets. The amendments in this ASU are effective for the Company for the fiscal year beginning July 1, 2022. Early adoption is permitted, including adoption in an interim period. If early adoption is elected, all of the amended guidance must be adopted in the same period. If early adoption is initially applied in an interim period, any adjustments should be reflected as of the beginning of the annual period that includes that interim period. The Company is currently evaluating the potential impact on adoption of this ASU on our consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848). The amendments in this update provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this update apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments (1) apply to contract modifications that replace a reference rate affected by reference rate reform, (2) provide exceptions to existing guidance related to changes to the critical terms of a hedging relationship due to reference rate reform (3) provide optional expedients for fair value hedging relationships, cash flow hedging relationships, and net investment hedging relationships, and (4) provide a onetime election to sell, transfer, or both sell and transfer debt securities classified as held to maturity that reference a rate affected by reference rate reform and that are classified as held to maturity before January 1, 2020. The amendments in this ASU are effective for all entities as of March 12, 2020 through December 31, 2022. The amendments for contract modifications can be elected to be applied as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020. The amendments for existing hedging relationships can be elected to be applied as of the beginning of the interim period that includes March 12, 2020 and to new eligible hedging relationships entered into after the beginning of the interim period that includes March 12, 2020. The Company is currently evaluating the potential impact on adoption of this guidance on our consolidated financial statements.

3. COVID-19 PANDEMIC

The direct and indirect effects of the COVID-19 pandemic have resulted in dramatic reductions in the level of economic activity in the Company's market area, as well as in the national and global economies and financial markets and have severely hampered the ability for certain businesses and consumers to meet their current repayment obligations.

In response to the pandemic, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), in addition to providing financial assistance to both businesses and consumers, creates a forbearance program for federally-backed mortgage loans, protects borrowers from negative credit reporting due to loan accommodations related to the national emergency, and provides financial institutions the option to temporarily suspend certain requirements under GAAP related to troubled debt restructurings for a limited period of time to account for the effects of COVID-19. The Federal and New York State banking regulatory agencies have likewise issued guidance encouraging financial institutions to work prudently with borrowers who are, or may be, unable to meet their contractual payment obligations because of the effects of COVID-19. That guidance, with concurrence of the FASB, and provisions of the CARES Act allow modifications made on a good faith basis in response to COVID-19 to borrowers who were generally current with their payments prior to any relief, to not be treated as troubled debt restructurings. Modifications may include payment deferrals, fee waivers, extensions of repayment term, or other delays in payment. The Company has worked with its customers affected by COVID-19 and accommodated a significant amount of modifications across its loan portfolios. To the extent that such modifications meet the criteria previously described, such modifications are not classified as troubled debt restructurings. Subsequent legislation extended the time period for which such modifications will not be considered troubled debt restructurings to January 1, 2022.

The extent to which the direct and indirect effects of the COVID-19 pandemic impact the Company's operational and financial performance will depend on numerous evolving factors including but not limited to, the magnitude and duration of COVID-19, the extent to which it will impact local, national and global economic conditions including interest rates, inflation, unemployment rates, the speed of the anticipated recovery, and governmental and business reactions to the pandemic, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19, as well as, the resulting adverse effects on our customers and community, may impact the Company's future financial condition or results of operations is uncertain and not currently estimable, however the impact could be material.

Employee Retention Credits Under the CARES Act

The CARES Act provided numerous tax provisions and other stimulus measures, including an employee retention credit ("ERC"), which is a refundable tax credit against certain employment taxes. The Taxpayer Certainty and Disaster Tax Relief Act of 2020 and the American Rescue Plan Act of 2021 extended and expanded the availability of the ERC. As expanded, the ERC is equal to 70% of qualified wages paid to employees (including employer qualified health plan expenses) and is capped at \$10,000 of qualified wages for each employee, such that the maximum ERC that can be claimed is \$7,000 per employee per applicable calendar quarter in 2021. As a result of the Company averaging fewer than 500 full-time employees, all wages paid to employees were eligible for the ERC.

The Company evaluated its eligibility for the ERC in the second fiscal quarter of 2022. The Company determined it qualified for the ERC for the first quarter of calendar 2021, using the alternative quarter election, because the Company's gross receipts decreased more than 20% for the fourth quarter of 2020 from the respective quarter in 2019, and for the second and third quarters of calendar 2021 because the Company's gross receipts decreased more than 20% for each quarter in 2021 from each of the respective quarters of 2019, the relevant criteria for the ERC. The Company has amended certain payroll tax filings to apply for a refund for each of the first three quarters of calendar 2021. The Company cannot reasonably estimate when it will receive the refunds.

Since there is not any GAAP guidance for for-profit business entities that receive government assistance that is not in the form of a loan, an income tax credit or revenue from a contract with a customer, the Company accounted for the employee retention credit by analogy to FASB ASC Subtopic 958-605, Not-for-Profit Entities: Revenue Recognition ("ASC 958-605"). Under ASC 958-605, government grants are recognized when the conditions or conditions on which they depend are substantially met. The conditions for recognition of the ERC include meeting the rules as an eligible employer (meeting the rules for a decline in gross receipts) and incurring qualifying expenses (payroll costs).

During the nine months ended March 31, 2022, the Company recorded an ERC benefit of \$5.0 million in noninterest expenses in the consolidated statements of operations. The Company has recorded an ERC grant receivable of \$5.0 million in other assets in the consolidated statements of condition at March 31, 2022.

4. ACQUISITIONS

On December 10, 2021 and December 22, 2021, respectively, the Company, through its subsidiary, Pioneer Financial Services, Inc., completed the acquisition of certain assets of two practices engaged in the wealth management services business in the Capital Region of New York. The Company paid an aggregate of \$1.5 million in cash and recorded \$728,000 in contingent consideration payable to acquire the assets and recorded an \$890,000 customer list intangible asset and goodwill in the amount of \$1.3 million in conjunction with the acquisitions. The effects of the acquired assets have been included in the consolidated financial statements since the respective acquisition dates. The above referenced acquisitions were made to expand the Company's wealth management services activities.

On March 16, 2022, the Company, through its subsidiary, Pioneer Financial Services, Inc., completed the acquisition of certain assets of a practice engaged in the wealth management services business in the Capital Region of New York. The Company paid \$165,000 in cash and recorded \$130,000 in contingent consideration payable to acquire the assets and recorded a \$118,000 customer list intangible asset and goodwill in the amount of \$177,000 in conjunction with the acquisition. The effects of the acquired assets have been included in the consolidated financial statements since the acquisition date. The above referenced acquisition was made to expand the Company's wealth management services activities.

5. INVESTMENT SECURITIES

The amortized cost and estimated fair value of securities are as follows (dollars in thousands):

	March 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available for sale:				
U.S. Government and agency obligations	\$ 339,414	\$ 1	\$ (12,154)	\$ 327,261
Municipal obligations	90,109	—	(270)	89,839
Other debt securities	324	371	(52)	643
Total available for sale securities	<u>\$ 429,847</u>	<u>\$ 372</u>	<u>\$ (12,476)</u>	<u>\$ 417,743</u>
Securities held to maturity:				
Corporate debt securities	\$ 20,000	\$ —	\$ (1,017)	\$ 18,983
Municipal obligations	5,009	—	(115)	4,894
Total held to maturity securities	<u>\$ 25,009</u>	<u>\$ —</u>	<u>\$ (1,132)</u>	<u>\$ 23,877</u>
Equity securities:				
Common stock	\$ 1,040	\$ 1,180	\$ —	\$ 2,220
Total equity securities	<u>\$ 1,040</u>	<u>\$ 1,180</u>	<u>\$ —</u>	<u>\$ 2,220</u>
	June 30, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available for sale:				
U.S. Government and agency obligations	\$ 216,155	\$ 121	\$ (235)	\$ 216,041
Municipal obligations	47,800	6	(9)	47,797
Other debt securities	424	385	(45)	764
Total available for sale securities	<u>\$ 264,379</u>	<u>\$ 512</u>	<u>\$ (289)</u>	<u>\$ 264,602</u>
Securities held to maturity:				
Corporate debt securities	\$ 7,000	\$ —	\$ (20)	\$ 6,980
Municipal obligations	3,878	61	—	3,939
Total held to maturity securities	<u>\$ 10,878</u>	<u>\$ 61</u>	<u>\$ (20)</u>	<u>\$ 10,919</u>
Equity securities:				
Common stock	\$ 1,463	\$ 1,416	\$ —	\$ 2,879
Total equity securities	<u>\$ 1,463</u>	<u>\$ 1,416</u>	<u>\$ —</u>	<u>\$ 2,879</u>

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The estimated fair value and gross unrealized losses aggregated by security category and length of time such securities have been in a continuous unrealized loss position, is summarized as follows (dollars in thousands):

	March 31, 2022					
	Less than 12 Months		12 Months or Longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Securities available for sale:						
U.S. Government and agency obligations	\$ 246,632	\$ (8,003)	\$ 75,613	\$ (4,151)	\$ 322,245	\$ (12,154)
Municipal obligations	88,883	(270)	—	—	88,883	(270)
Other debt securities	45	(1)	154	(51)	199	(52)
	<u>\$ 335,560</u>	<u>\$ (8,274)</u>	<u>\$ 75,767</u>	<u>\$ (4,202)</u>	<u>\$ 411,327</u>	<u>\$ (12,476)</u>
Securities held to maturity:						
Corporate debt securities	\$ 18,983	\$ (1,017)	\$ —	\$ —	\$ 18,983	\$ (1,017)
Municipal obligations	4,894	(115)	—	—	4,894	(115)
	<u>\$ 23,877</u>	<u>\$ (1,132)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 23,877</u>	<u>\$ (1,132)</u>
	June 30, 2021					
	Less than 12 Months		12 Months or Longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Securities available for sale:						
U.S. Government and agency obligations	\$ 85,518	\$ (235)	\$ —	\$ —	\$ 85,518	\$ (235)
Municipal obligations	21,484	(9)	—	—	21,484	(9)
Other debt securities	9	(1)	165	(44)	174	(45)
	<u>\$ 107,011</u>	<u>\$ (245)</u>	<u>\$ 165</u>	<u>\$ (44)</u>	<u>\$ 107,176</u>	<u>\$ (289)</u>
Securities held to maturity:						
Corporate debt securities	\$ 6,980	\$ (20)	\$ —	\$ —	\$ 6,980	\$ (20)
	<u>\$ 6,980</u>	<u>\$ (20)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6,980</u>	<u>\$ (20)</u>

At March 31, 2022, there were 164 securities with unrealized losses. Unrealized losses on debt securities are primarily related to increases in credit spreads since the securities were purchased. Unrealized losses on other debt securities (agency-backed and certain private-label mortgage-backed securities, asset-backed securities and collateralized mortgage obligation securities) are not considered other-than-temporary based upon analysis completed by management considering credit rating of the instrument, length of time each security has spent in an unrealized loss position and the strength of the underlying collateral.

At March 31, 2022, management reviewed all other debt securities which were rated less than investment grade for impairment, resulting in no additional impairment charges during the three or nine months ended March 31, 2022. At March 31, 2022, 55 securities with an amortized cost of \$255,000 and remaining par value of \$1.6 million were evaluated.

The table below presents a rollforward of the credit losses recognized in earnings (dollars in thousands):

Balance, July 1, 2021	\$ 1,214
Reductions for amounts realized for securities transactions	—
Balance, March 31, 2022	<u>\$ 1,214</u>

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The fair value of debt securities and carrying amount, if different, by contractual maturity were as follows (dollars in thousands). Securities not due at a single maturity date are shown separately.

	March 31, 2022	
	Amortized Cost	Estimated Fair Value
Securities available for sale:		
Due in one year or less	\$ 149,523	\$ 148,892
Due after one to five years	280,000	268,208
Other debt securities	324	643
	<u>\$ 429,847</u>	<u>\$ 417,743</u>
Securities held to maturity:		
Due in one year or less	\$ 3,019	\$ 2,904
Due after one to five years	1,990	1,990
Due after five to ten years	20,000	18,983
	<u>\$ 25,009</u>	<u>\$ 23,877</u>

During the nine months ended March 31, 2022, the Company received \$5.3 million in proceeds from the sale of securities available for sale, realizing gross gains of \$4,000. There were no sales of securities available for sale for the three months ended March 31, 2022. There were no sales of securities available for sale for the three and nine months ended March 31, 2021.

There were no sales of securities held to maturity for the three and nine months ended March 31, 2022 and 2021.

During the nine months ended March 31, 2022 and 2021, the Company received \$803,000 and \$7.5 million, respectively in proceeds from the sale of equity securities. There were no sales of equity securities for the three months ended March 31, 2022 and 2021.

The portion of unrealized gains and losses for the period that relates to equity securities still held at the reporting date are as follows (dollars in thousands):

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2022	2021	2022	2021
Net gains recognized during the period on equity securities	\$ 26	\$ 217	\$ 144	\$ 1,632
Less: Net gains recognized during the period on equity securities sold during the period	—	—	17	1,190
Unrealized gains recognized during reporting period on equity securities still held at reporting date	<u>\$ 26</u>	<u>\$ 217</u>	<u>\$ 127</u>	<u>\$ 442</u>

At March 31, 2022, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of our equity. As of March 31, 2022, and June 30, 2021, the carrying value of available for sale securities pledged to secure FHLBNY advances and municipal deposits was \$413.3 million and \$252.8 million, respectively.

6. NET LOANS RECEIVABLE

A summary of net loans receivable is as follows (dollars in thousands):

	March 31, 2022	June 30, 2021
Commercial:		
Real estate	\$ 465,495	\$ 490,115
Commercial and industrial (1)	101,707	167,912
Construction	44,741	64,914
Total commercial	611,943	722,941
Residential mortgages	273,091	279,508
Home equity loans and lines	77,508	75,469
Consumer	23,793	25,568
	986,335	1,103,486
Net deferred loan costs	3,032	1,572
Allowance for loan losses	(22,575)	(23,259)
Net loans receivable	\$ 966,792	\$ 1,081,799

- (1) Commercial and industrial loans included Paycheck Protection Program (“PPP”) loans of \$8.1 million and \$51.5 million as of March 31, 2022 and June 30, 2021, respectively.

The following tables present the activity in the allowance for loan losses by portfolio segment (dollars in thousands):

	For the Three Months Ended March 31, 2022				
	Commercial	Residential Mortgages	Home Equity	Consumer	Total
Allowance for loan losses at beginning of period	\$ 17,650	\$ 3,223	\$ 1,347	\$ 418	\$ 22,638
Provisions charged to operations	(64)	(5)	—	69	—
Loans charged off	(10)	(49)	—	(53)	(112)
Recoveries on loans charged off	1	37	—	11	49
Allowance for loan losses at end of period	\$ 17,577	\$ 3,206	\$ 1,347	\$ 445	\$ 22,575

	For the Three Months Ended March 31, 2021				
	Commercial	Residential Mortgages	Home Equity	Consumer	Total
Allowance for loan losses at beginning of period	\$ 18,074	\$ 3,544	\$ 1,287	\$ 488	\$ 23,393
Provisions charged to operations	1,579	(297)	(31)	(1)	1,250
Loans charged off	(1,597)	—	—	(50)	(1,647)
Recoveries on loans charged off	71	—	—	20	91
Allowance for loan losses at end of period	\$ 18,127	\$ 3,247	\$ 1,256	\$ 457	\$ 23,087

	For the Nine Months Ended March 31, 2022				
	Commercial	Residential Mortgages	Home Equity	Consumer	Total
Allowance for loan losses at beginning of period	\$ 18,300	\$ 3,224	\$ 1,295	\$ 440	\$ 23,259
Provisions charged to operations	(238)	299	92	97	250
Loans charged off	(529)	(354)	(40)	(107)	(1,030)
Recoveries on loans charged off	44	37	—	15	96
Allowance for loan losses at end of period	\$ 17,577	\$ 3,206	\$ 1,347	\$ 445	\$ 22,575

	For the Nine Months Ended March 31, 2021				
	Commercial	Residential Mortgages	Home Equity	Consumer	Total
Allowance for loan losses at beginning of period	\$ 17,570	\$ 3,484	\$ 1,303	\$ 494	\$ 22,851
Provisions charged to operations	3,582	(129)	4	93	3,550
Loans charged off	(3,155)	(108)	(51)	(160)	(3,474)
Recoveries on loans charged off	130	—	—	30	160
Allowance for loan losses at end of period	<u>\$ 18,127</u>	<u>\$ 3,247</u>	<u>\$ 1,256</u>	<u>\$ 457</u>	<u>\$ 23,087</u>

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method (dollars in thousands):

	March 31, 2022				
	Commercial	Residential Mortgages	Home Equity	Consumer	Total
Allowance for loan losses:					
Related to loans individually evaluated for impairment	\$ 211	\$ —	\$ —	\$ —	\$ 211
Related to loans collectively evaluated for impairment	17,366	3,206	1,347	445	22,364
Ending balance	<u>\$ 17,577</u>	<u>\$ 3,206</u>	<u>\$ 1,347</u>	<u>\$ 445</u>	<u>\$ 22,575</u>
Loans:					
Individually evaluated for impairment	\$ 8,904	\$ —	\$ —	\$ —	\$ 8,904
Loans collectively evaluated for impairment	603,039	273,091	77,508	23,793	977,431
Ending balance	<u>\$ 611,943</u>	<u>\$ 273,091</u>	<u>\$ 77,508</u>	<u>\$ 23,793</u>	<u>\$ 986,335</u>
	June 30, 2021				
	Commercial	Residential Mortgages	Home Equity	Consumer	Total
Allowance for loan losses:					
Related to loans individually evaluated for impairment	\$ 1,035	\$ —	\$ —	\$ —	\$ 1,035
Related to loans collectively evaluated for impairment	17,265	3,224	1,295	440	22,224
Ending balance	<u>\$ 18,300</u>	<u>\$ 3,224</u>	<u>\$ 1,295</u>	<u>\$ 440</u>	<u>\$ 23,259</u>
Loans:					
Individually evaluated for impairment	\$ 14,136	\$ —	\$ —	\$ —	\$ 14,136
Loans collectively evaluated for impairment	708,805	279,508	75,469	25,568	1,089,350
Ending balance	<u>\$ 722,941</u>	<u>\$ 279,508</u>	<u>\$ 75,469</u>	<u>\$ 25,568</u>	<u>\$ 1,103,486</u>

The following tables present information related to impaired loans by class as of (dollars in thousands):

	March 31, 2022			For the Nine Months Ended March 31, 2022	
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial:					
Real estate	\$ 8,379	\$ 7,969	\$ —	\$ 8,092	\$ 74
Commercial and industrial	166	166	—	177	7
Construction	—	—	—	—	—
Subtotal	8,545	8,135	—	8,269	81
With an allowance recorded:					
Commercial:					
Real estate	730	730	192	738	28
Commercial and industrial	39	39	19	39	—
Construction	—	—	—	—	—
Subtotal	769	769	211	777	28
Total	\$ 9,314	\$ 8,904	\$ 211	\$ 9,046	\$ 109

	June 30, 2021			For the Year Ended June 30, 2021	
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial:					
Real estate	\$ 9,351	\$ 9,248	\$ —	\$ 9,219	\$ 99
Commercial and industrial	253	249	—	274	—
Construction	1,340	550	—	1,002	—
Subtotal	10,944	10,047	—	10,495	99
With an allowance recorded:					
Commercial:					
Real estate	3,671	3,479	464	3,568	—
Commercial and industrial	1,464	610	571	1,118	24
Construction	—	—	—	—	—
Subtotal	5,135	4,089	1,035	4,686	24
Total	\$ 16,079	\$ 14,136	\$ 1,035	\$ 15,181	\$ 123

Interest income on nonaccrual loans is recognized using the cost recovery method. Interest income on impaired loans that were on nonaccrual status and cash-basis interest income for the three and nine months ended March 31, 2022, and the year ended June 30, 2021 was nominal.

The recorded investment in loans excludes accrued interest receivable and deferred loan fees, net due to immateriality.

At various times, certain loan modifications are executed which are considered to be troubled debt restructurings. Substantially all of these modifications include one or a combination of the following: extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; temporary reduction in the interest rate; change in scheduled payment amount including interest only; or extensions of additional credit for payment of delinquent real estate taxes or other costs.

The Company has implemented customer payment deferral programs to assist both consumer and commercial borrowers that may be experiencing financial hardship due to COVID-19 related challenges, whereby short-term deferrals

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of payments (generally three to six months) will be provided. Commercial, residential mortgage, home equity loans and lines, and consumer loans in deferment status will continue to accrue interest on the deferred principal during the deferment period unless otherwise classified as nonaccrual. Consistent with the CARES Act and industry regulatory guidance, borrowers that were otherwise current on loan payments that were granted COVID-19 related financial hardship payment deferrals will continue to be reported as current loans throughout the agreed upon deferral period and therefore, not classified as troubled-debt restructured loans. Borrowers that are delinquent in their payments prior to requesting a COVID-19 related financial hardship payment deferral will be reviewed on a case by case basis for troubled debt restructure classification and non-performing loan status. At March 31, 2022, the Company had COVID-19 related financial hardship payment deferrals for consumer borrowers totaling two loans representing \$699,000 of the Company's residential mortgage, home equity loans and lines of credit, and consumer loan balances. At March 31, 2022, the Company had no COVID-19 related financial hardship deferrals for commercial borrowers.

There were no loans modified as troubled debt restructurings during the three and nine months ended March 31, 2022, and 2021, respectively. There were no loans that had been modified as a troubled debt restructuring during the twelve months prior to March 31, 2022 which have subsequently defaulted during the three or nine months ended March 31, 2022. There were no loans that had been modified as a troubled debt restructuring during the twelve months prior to March 31, 2021 which subsequently defaulted during the three or nine months ended March 31, 2021.

Loans subject to a troubled debt restructuring are evaluated as impaired loans for the purpose of determining the specific component of the allowance for loan losses.

The following table presents the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans (dollars in thousands):

	March 31, 2022		June 30, 2021	
	Nonaccrual	Past Due 90 Days Still on Accrual	Nonaccrual	Past Due 90 Days Still on Accrual
Commercial:				
Real estate	\$ 5,987	\$ 3,013	\$ 10,527	\$ 1,476
Commercial and industrial	39	241	465	1,525
Construction	—	617	550	145
Residential mortgages	4,504	55	4,993	—
Home equity loans and lines	1,668	—	2,043	—
Consumer	—	—	187	15
	<u>\$ 12,198</u>	<u>\$ 3,926</u>	<u>\$ 18,765</u>	<u>\$ 3,161</u>

Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually evaluated impaired loans.

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The following tables present the aging of the recorded investment in loans by class of loans as of (dollars in thousands):

March 31, 2022						
	30 - 59 Days Past Due	60 - 89 Days Past Due	90 or more Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial:						
Real estate	\$ 5,763	\$ 630	\$ 3,221	\$ 9,614	\$ 455,881	\$ 465,495
Commercial and industrial	1,658	—	265	1,923	99,784	101,707
Construction	3,020	—	617	3,637	41,104	44,741
Residential mortgages	229	90	1,483	1,802	271,289	273,091
Home equity loans and lines	632	142	833	1,607	75,901	77,508
Consumer	2,617	8	—	2,625	21,168	23,793
Total	<u>\$ 13,919</u>	<u>\$ 870</u>	<u>\$ 6,419</u>	<u>\$ 21,208</u>	<u>\$ 965,127</u>	<u>\$ 986,335</u>
June 30, 2021						
	30 - 59 Days Past Due	60 - 89 Days Past Due	90 or more Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial:						
Real estate	\$ 5	\$ 5,002	\$ 5,738	\$ 10,745	\$ 479,370	\$ 490,115
Commercial and industrial	—	318	1,970	2,288	165,624	167,912
Construction	—	—	695	695	64,219	64,914
Residential mortgages	673	1,345	2,049	4,067	275,441	279,508
Home equity loans and lines	193	97	1,233	1,523	73,946	75,469
Consumer	2	—	202	204	25,364	25,568
Total	<u>\$ 873</u>	<u>\$ 6,762</u>	<u>\$ 11,887</u>	<u>\$ 19,522</u>	<u>\$ 1,083,964</u>	<u>\$ 1,103,486</u>

The Company categorizes commercial loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes commercial loans individually by classifying the loans as to credit risk. The Company uses the following definitions for risk ratings:

Special Mention – Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard – Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Commercial loans not meeting the criteria above are considered to be pass rated loans.

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The following tables present commercial loans summarized by class of loans and the risk category (dollars in thousands):

	March 31, 2022				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial					
Real estate	\$ 415,056	\$ 5,896	\$ 44,543	\$ —	\$ 465,495
Commercial and industrial	94,687	2,861	4,120	39	101,707
Construction	44,124	—	617	—	44,741
	<u>\$ 553,867</u>	<u>\$ 8,757</u>	<u>\$ 49,280</u>	<u>\$ 39</u>	<u>\$ 611,943</u>
	June 30, 2021				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial					
Real estate	\$ 440,209	\$ 25,588	\$ 21,698	\$ 2,620	\$ 490,115
Commercial and industrial	149,909	9,272	8,308	423	167,912
Construction	63,747	—	1,167	—	64,914
	<u>\$ 653,865</u>	<u>\$ 34,860</u>	<u>\$ 31,173</u>	<u>\$ 3,043</u>	<u>\$ 722,941</u>

The Company considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential and consumer loan classes, the Company also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity.

As of March 31, 2022 and June 30, 2021, the Company had pledged \$401.8 million and \$429.7 million respectively, of residential mortgage, home equity and commercial loans as collateral for FHLBNY borrowings and stand-by letters of credit.

7. DERIVATIVES

In the normal course of servicing our commercial customers, the Company acts as an interest rate swap counterparty for certain commercial borrowers. The Company manages its exposure to such interest rate swaps by entering into corresponding and offsetting interest rate swaps with third parties that match the terms of the interest rate swap with the commercial borrowers. These positions directly offset each other and the Company's exposure is the fair value of the derivatives due to potential changes in credit risk of our commercial borrowers and third parties.

The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements. At March 31, 2022, the Company held derivatives not designated as hedging instruments, comprised of back-to-back interest rate swaps, with a total notional amount of \$669.0 million, consisting of \$334.5 million of interest rate swaps with commercial borrowers and \$334.5 million of offsetting interest rate swaps with third-party counterparties on substantially the same terms. At June 30, 2021, the Company held derivatives not designated as hedging instruments, comprised of back-to-back interest rate swaps, with a total notional amount of \$758.4 million, consisting of \$379.2 million of interest rate swaps with commercial borrowers and \$379.2 million of offsetting interest rate swaps with third-party counterparties on substantially the same terms.

The fair value of derivatives are classified as other assets and other liabilities on the consolidated statements of condition. The estimated fair value of derivatives not designated as hedging instruments are as follows (dollars in thousands):

	March 31, 2022	
	Derivative Assets	Derivative Liabilities
Gross interest rate swaps	\$ 11,250	\$ 11,250
Less: master netting arrangements	(577)	(577)
Less: cash collateral applied	(6,550)	(4,076)
Net amount	<u>\$ 4,123</u>	<u>\$ 6,597</u>

	June 30, 2021	
	Derivative Assets	Derivative Liabilities
Gross interest rate swaps	\$ 25,929	\$ 25,929
Less: master netting arrangements	(610)	(610)
Less: cash collateral applied	—	(24,682)
Net amount	<u>\$ 25,319</u>	<u>\$ 637</u>

Under terms of the agreements with the third-party counterparties, the Company provides cash collateral to the counterparty for the initial trade. Subsequent to the trade, the margin is exchanged in either direction, based upon the estimated fair value of the underlying contracts. At March 31, 2022, the Company had received \$6.6 million and deposited \$4.1 million as collateral for swap agreements with third-party counterparties. At June 30, 2021, the Company had deposited \$24.7 million as collateral for swap agreements with third-party counterparties.

8. OTHER COMPREHENSIVE LOSS

Reclassifications out of accumulated other comprehensive loss were as follows (dollars in thousands):

Details About Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss				Affected Line Item in the Statement Where Net Income is Presented
	Three Months Ended		Nine Months Ended		
	March 31,		March 31,		
	2022	2021	2022	2021	
Unrealized gains/losses on securities (before tax):					
Net gains included in net income	\$ —	\$ —	\$ 4	\$ —	Net gain on securities transactions
Tax expense	—	—	(1)	—	Income tax expense
Net of tax	—	—	3	—	
Amortization of defined benefit plan items (before tax):					
Net actuarial loss	—	—	—	—	Salaries and employee benefits
Tax benefit	—	—	—	—	Income tax expense
Net of tax	—	—	—	—	
Total reclassification for the period, net of tax	\$ —	\$ —	\$ 3	\$ —	

The balances and changes in the components of accumulated other comprehensive loss, net of tax, are as follows (dollars in thousands):

	For the Three Months Ended March 31,		
	Unrealized Gains/Losses on Securities	Defined Benefit Plans	Accumulated Other Comprehensive Loss
2022:			
Accumulated other comprehensive loss as of January 1, 2022	\$ (1,574)	(5,289)	\$ (6,863)
Other comprehensive loss before reclassifications	(7,367)	—	(7,367)
Accumulated other comprehensive loss as of March 31, 2022	<u>\$ (8,941)</u>	<u>(5,289)</u>	<u>\$ (14,230)</u>
2021:			
Accumulated other comprehensive loss as of January 1, 2021	\$ 295	(17,751)	\$ (17,456)
Other comprehensive loss before reclassifications	(221)	—	(221)
Accumulated other comprehensive loss as of March 31, 2021	<u>\$ 74</u>	<u>(17,751)</u>	<u>\$ (17,677)</u>
	For the Nine Months Ended March 31,		
	Unrealized Gains/Losses on Securities	Defined Benefit Plans	Accumulated Other Comprehensive Loss
2022:			
Accumulated other comprehensive loss as of July 1, 2021	\$ 164	(5,289)	\$ (5,125)
Other comprehensive loss before reclassifications	(9,102)	—	(9,102)
Amounts reclassified from accumulated other comprehensive loss	(3)	—	(3)
Accumulated other comprehensive loss as of March 31, 2022	<u>\$ (8,941)</u>	<u>\$ (5,289)</u>	<u>\$ (14,230)</u>
2021:			
Accumulated other comprehensive loss as of July 1, 2020	381	(17,751)	(17,370)
Other comprehensive loss before reclassifications	(307)	—	(307)
Accumulated other comprehensive loss as of March 31, 2021	<u>\$ 74</u>	<u>\$ (17,751)</u>	<u>\$ (17,677)</u>

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The amounts of income tax expense (benefit) allocated to each component of other comprehensive income (loss) were as follows (dollars in thousands):

	For the Three Months Ended March 31,	
	2022	2021
Unrealized losses on securities:		
Unrealized holdings losses arising during the period	\$ (2,607)	\$ (77)
Reclassification adjustment for gains included in net income	—	—
	<u>(2,607)</u>	<u>(77)</u>
Defined benefit plans:		
Change in funded status	—	—
Reclassification adjustment for accretion of net prior service cost	—	—
Reclassification adjustment for amortization of net actuarial loss	—	—
	<u>—</u>	<u>—</u>
	<u>\$ (2,607)</u>	<u>\$ (77)</u>
	For the Nine Months Ended March 31,	
	2022	2021
Unrealized losses on securities:		
Unrealized holdings losses arising during the period	\$ (3,221)	\$ (109)
Reclassification adjustment for gains included in net income	(1)	—
	<u>(3,222)</u>	<u>(109)</u>
Defined benefit plans:		
Change in funded status	—	—
Reclassification adjustment for amortization of net actuarial loss	—	—
	<u>—</u>	<u>—</u>
	<u>\$ (3,222)</u>	<u>\$ (109)</u>

9. EMPLOYEE BENEFIT PLANS

The Company maintains a noncontributory defined benefit pension plan and a defined benefit post-retirement plan. Plan assets and obligations that determine the funded status are measured as of the end of the fiscal year.

Pension Plan

The Company maintains a noncontributory defined benefit pension plan covering substantially all of its full-time employees twenty-one years of age or older, with at least one year of service. Through December 31, 2009, pensions were paid as an annuity using a pension formula of 2.0% of the average of the five highest consecutive years of total compensation over the last ten years multiplied by credited service up to thirty years. Effective January 1, 2010, the plan was amended and service rendered thereafter is paid using a pension formula of 1.5%. Amounts contributed to the plan are determined annually on the basis of (a) the maximum amount allowable under Internal Revenue Service regulations and (b) the amount certified by a consulting actuary as necessary to avoid an accumulated funding deficiency as defined by the Employee Retirement Income Security Act of 1974 (“ERISA”). The defined benefit pension plan was amended, effective August 31, 2019, to close the plan to new employees hired on or after September 1, 2019, therefore, no new employees hired on or after September 1, 2019 would be eligible to participate in the defined benefit pension plan.

Net periodic pension cost included in salaries and employee benefits in the Company's consolidated statements of operations included the following components (dollars in thousands):

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2022	2021	2022	2021
Service cost	\$ 764	\$ 728	\$ 2,292	\$ 2,184
Interest cost	514	451	1,542	1,357
Expected return on plan assets	(1,031)	(838)	(3,093)	(2,512)
Amortization of net actuarial loss	5	424	15	1,274
Net periodic pension cost	<u>\$ 252</u>	<u>\$ 765</u>	<u>\$ 756</u>	<u>\$ 2,303</u>

Contributions

For the three and nine months ended March 31, 2022 and 2021, the Company made no cash contributions to the plan.

Post-Retirement Healthcare Plan

The Company offers a defined benefit post-retirement plan which provides medical and life insurance benefits to employees meeting certain requirements. Effective October 1, 2006, the plan was amended so that there have been no new plan participants for medical benefits. The cost of post-retirement plan benefits is recognized on an accrual basis as employees perform services. Active employees are eligible for retiree medical coverage upon reaching age sixty with twenty-five or more years of service. Employees with a minimum of thirty years of service are eligible for individual and spousal coverage. Retirees are eligible to participate in any bank-sponsored health insurance programs. The Company's contributions for retiree medical are limited to a monthly premium of \$210 for individual coverage and \$420 for employee and spousal coverage. The Company's funding policy is to pay insurance premiums as they come due.

Net periodic post-retirement benefit cost included in salaries and employee benefits in the Company's consolidated statements of operations included the following components (dollars in thousands):

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2022	2021	2022	2021
Service cost	\$ 9	\$ 11	\$ 27	\$ 33
Interest cost	14	3	41	39
Recognized actuarial loss	—	7	—	9
Net periodic post-retirement benefit cost	<u>\$ 23</u>	<u>\$ 21</u>	<u>\$ 68</u>	<u>\$ 81</u>

Employee Stock Ownership Plan

On July 17, 2019, the Company established an Employee Stock Ownership Plan (“ESOP”) to provide eligible employees the opportunity to own Company stock. The ESOP is a tax-qualified retirement plan for the benefit of Company employees. The Company granted loans to the ESOP for the purchase of 1,018,325 shares of the Company’s common stock at an average price of \$13.40 per share. The loan obtained by the ESOP from the Company to purchase the common stock is payable annually over 20 years at a rate per annum equal to the Prime Rate. Loan payments are principally funded by cash contributions from the Bank. The loan is secured by the shares purchased, which are held in a suspense account for allocation among participants as the loan is repaid. The balance of the ESOP loan at March 31, 2022 was \$11.9 million. Contributions are allocated to eligible participants on the basis of compensation, subject to federal tax limits. The number of shares committed to be released annually is 50,916 through the year 2038. Participants may receive the shares at the end of employment.

Shares held by the ESOP include the following:

	As of March 31,	
	2022	2021
Allocated	152,748	101,832
Committed to be allocated	12,729	12,729
Unallocated	852,848	903,764
Total shares	<u>1,018,325</u>	<u>1,018,325</u>

Total compensation expense recognized in connection with the ESOP for the three and nine months ended March 31, 2022 was \$140,000 and \$452,000, respectively.

Total compensation expense recognized in connection with the ESOP for the three and nine months ended March 31, 2021 was \$143,000 and \$382,000, respectively.

10. COMMITMENTS AND CONTINGENT LIABILITIES

Off-Balance-Sheet Financing and Concentrations of Credit

The Company is a party to certain financial instruments with off-balance-sheet risk to meet the financing needs of its customers. These financial instruments include the Company's commitments to extend credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the consolidated statements of condition. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the commitments to extend credit is represented by the contractual notional amounts of those instruments which are presented in the tables below (dollars in thousands). The Company uses the same credit policies in making commitments as it does for on-balance-sheet instruments.

	March 31, 2022		
	Fixed Rate	Variable Rate	Total
Financial instruments whose contract amounts represent credit risk (including unused lines of credit and unadvanced loan funds):			
Commitments to extend credit	\$ 22,452	\$ 229,391	\$ 251,843
Standby letters of credit	—	28,538	28,538
	<u>\$ 22,452</u>	<u>\$ 257,929</u>	<u>\$ 280,381</u>

	June 30, 2021		
	Fixed Rate	Variable Rate	Total
Financial instruments whose contract amounts represent credit risk (including unused lines of credit and unadvanced loan funds):			
Commitments to extend credit	\$ 29,292	\$ 179,767	\$ 209,059
Standby letters of credit	—	25,011	25,011
	<u>\$ 29,292</u>	<u>\$ 204,778</u>	<u>\$ 234,070</u>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and require payment of a fee. Since certain commitments are expected to expire without being fully drawn, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral, if any, required by the Company for the extension of credit is based on management's credit evaluation of the customer.

Commitments to extend credit may be written on a fixed rate basis thus exposing the Company to interest rate risk, given the possibility that market rates may change between commitment and actual extension of credit.

Standby letters of credit are conditional commitments issued by the Company to guarantee payment on behalf of a customer or to guarantee the performance of a customer to a third party. The credit risk involved in issuing these instruments is essentially the same as that involved in extending loans to customers. Since a portion of these instruments will expire unused, the total amounts do not necessarily represent future cash requirements. Each customer is evaluated individually for creditworthiness under the same underwriting standards used for commitments to extend credit and on-balance-sheet instruments. Bank policies governing loan collateral apply to standby letters of credit at the time of credit extension.

Certain residential mortgage loans are written on an adjustable basis and include interest rate caps which limit annual and lifetime increases in interest rates. Generally, adjustable rate mortgages have an annual rate increase cap of 2% and lifetime rate increase cap of 5% to 6% above the initial loan rate. These caps expose the Company to interest rate risk should market rates increase above these limits. At March 31, 2022, approximately \$23.5 million of adjustable rate residential mortgage loans had interest rate caps. In addition, certain adjustable rate residential mortgage loans have a

conversion option whereby the borrower may elect to convert the loan to a fixed rate during a designated time period. At March 31, 2022, approximately \$1.2 million of the adjustable rate mortgage loans had conversion options.

The Company periodically sells residential mortgage loans to FNMA and to the State of New York Mortgage Agency. At March 31, 2022 and June 30, 2021, the Bank had no loans held for sale. In addition, the Bank has no loan commitments with borrowers at March 31, 2022 and June 30, 2021 with rate lock agreements which are intended to be held for sale, if closed. The Company generally determines whether or not a loan is held for sale at the time that loan commitments are entered into or at the time a convertible adjustable rate mortgage loan converts to a fixed interest rate. In order to reduce the interest rate risk associated with the portfolio of loans held for sale, as well as loan commitments with locked interest rates which are intended to be held for sale if closed, the Company enters into agreements to sell loans in the secondary market. At March 31, 2022 and June 30, 2021, the Company had no commitments to sell loans to unrelated investors.

Concentrations of Credit

The Company primarily grants loans to customers located in the New York State counties of Albany, Greene, Rensselaer, Schenectady, Saratoga, and Warren. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon the real estate and construction-related sectors of the economy, and general economic conditions in the Company's market area.

Legal Proceedings and Other Contingent Liabilities

In the ordinary course of business, the Company and the Bank are involved in a number of legal, regulatory, governmental and other proceedings, claims or investigations that could result in losses, including damages, fines and/or civil penalties, which could be significant concerning matters arising from the conduct of their business, including the matters described below. In view of the inherent difficulty of predicting the outcome of such matters, particularly where the claimants seek large or indeterminate damages, the Company generally cannot predict the eventual outcome of the pending matters, timing of the ultimate resolution of these matters, or eventual loss, fines or penalties related to each pending matter. In accordance with applicable accounting guidance, the Company will establish an accrued liability when those matters present loss contingencies that are both probable and estimable. The Company's estimates of potential losses will change over time and the actual losses may vary significantly, and there may be an exposure to loss in excess of any amounts accrued. As a matter develops, management, in conjunction with any outside counsel handling the matter, evaluate on an ongoing basis whether such matter presents a loss contingency that is probable and estimable; or where a loss is reasonably possible, whether in excess of a related accrued liability or where there is no accrued liability, whether it is possible to estimate a range of possible loss. Once the loss contingency is deemed to be both probable and estimable, the Company establishes an accrued liability and records a corresponding amount of litigation-related expense. The Company continues to monitor the matters for further developments that could affect the amount of the accrued liability that has been previously established. Excluding legal fees and expenses, litigation-related expense of \$1.2 million was recognized for the three and nine months ended March 31, 2022. For those matters for which a loss is reasonably possible and estimable, whether in excess of an accrued liability or where there is no accrued liability, the Company's estimated range of possible loss is \$0 to \$51.3 million in excess of the accrued liability, if any, as of March 31, 2022. These estimates are based upon currently available information and are subject to significant judgment, a variety of assumptions and known and unknown uncertainties. The matters underlying the accrued liability and estimated range of possible losses are unpredictable and may change from time to time, and actual losses may vary significantly from the current estimate and accrual. The estimated range of possible loss does not represent the Company's maximum loss exposure.

Information is provided below regarding the nature of the matters and associated claimed damages. The Company and the Bank are defending each of these matters vigorously, and the Company believes that it and the Bank have substantial defenses, including affirmative defenses, counterclaims and cross-claims to the various allegations that have been asserted. In light of the significant judgment, variety of assumptions and uncertainties involved in the matters described below, some of which are beyond the Company's control, and the large or indeterminate damages sought in some of these matters, an adverse outcome in one or more of these matters, or matters related to or resulting from the matters described below, could have an adverse material impact on the Company's business, prospects, financial condition, results of operations, cash flows, or cause significant reputational harm and subject the Company to face civil litigation, significant fines, damage awards or other material regulatory consequences.

Mann Entities Related Fraudulent Activity

During the first fiscal quarter of 2020 (the quarter ended September 30, 2019), the Company became aware of potentially fraudulent activity associated with transactions by an established business customer of the Bank. The customer and various affiliated entities (collectively, the “Mann Entities”) had numerous accounts with the Bank. The transactions in question related both to deposit and lending activity with the Mann Entities.

For the fraudulent activity related to the Mann Entities, the Bank’s potential monetary exposure with respect to its deposit activity was approximately \$18.5 million. In the first fiscal quarter of 2020, the Bank exercised its rights pursuant to state and federal law and the relevant Mann Entity general deposit account agreements to take actions to set off/recover approximately \$16.0 million from general deposit corporate operating accounts held by the Mann Entities at the Bank to partially cover overdrafts/negative account balances in Mann Entity general deposit corporate operating accounts that primarily resulted from another bank returning/calling back \$15.6 million in checks on August 30, 2019, that the Mann Entities had deposited into and then withdrawn from their accounts at the Bank the day before. In the first fiscal quarter of 2020, the Bank recognized a charge to non-interest expense in the amount of \$2.5 million based on the net negative deposit balance of the various Mann Entities’ accounts after the setoffs/overdraft recoveries. Through the end of the third fiscal quarter of 2022, no additional charges to non-interest expense were recognized related to the deposit transactions with the Mann Entities.

With respect to the Bank’s lending activity with the Mann Entities, its potential exposure was approximately \$15.8 million (which represents the Bank’s participation interest in the approximately \$35.8 million commercial loan relationships for which the Bank is the originating lender). In the fourth fiscal quarter of 2019, the Bank recognized a provision for loan losses in the amount of \$15.8 million, related to the charge-off of the entire principal balance owed to the Bank related to the Mann Entities’ commercial loan relationships. During the third fiscal quarter of 2020 and the first fiscal quarter of 2021, the Bank recognized partial recoveries in the amount of \$1.7 million and \$34,000, respectively, related to the charge-off of the Mann Entities’ commercial loan relationships, which were credited to the allowance for loan losses. Through the end of the third fiscal quarter of 2022, no additional charges to the provision for loan losses were recognized related to the loan transactions with the Mann Entities.

Several other parties and regulatory agencies are asserting claims against the Company and the Bank related to the series of transactions between the Company or the Bank, on the one hand, and the Mann Entities, on the other. The Company and the Bank continue to investigate these matters and it is possible that the Company and the Bank will be subject to additional liabilities which may have a material adverse effect on our financial condition, results of operations or cash flows. The Company is pursuing all available sources of recovery and other means of mitigating the potential loss, and the Company and the Bank are vigorously defending all claims asserted against them arising out of or otherwise related to the fraudulent activity of the Mann Entities. During the nine months ended March 31, 2022 and 2021, the Bank recognized insurance recoveries in the amount of \$2.9 million and \$547,000, respectively, related to the partial reimbursement of defense costs incurred as a result of these matters, which were credited to noninterest expense – professional fees on the consolidated statement of operations.

Legal Proceedings

On October 31, 2019, Southwestern Payroll Services, Inc. (“Southwestern”) filed a complaint against the Company and the Bank (“Pioneer Parties”), Michael T. Mann, Valuewise Corporation, MyPayrollHR, LLC and Cloud Payroll, LLC (collectively, the “Mann Parties”) in the United States District Court for the Northern District of New York. The complaint alleged that the Pioneer Parties (i) wrongfully converted certain funds belonging to Southwestern, (ii) engaged in fraudulent and wrongful collection and retention of funds belonging to Southwestern, and (iii) committed gross negligence and that Southwestern is entitled to a constructive trust limiting how the Pioneer Parties distribute the funds in question, which are about \$9.8 million. On November 26, 2019, the Pioneer Parties moved to dismiss Southwestern’s fraud claim, which also postponed the Pioneer Parties’ deadline to file an answer until 14 days after the court decided the motion to dismiss. On December 10, 2019, Southwestern filed a response to the Pioneer Parties’ motion to dismiss and an amended complaint, which rendered the Pioneer Parties’ motion to dismiss moot. The amended complaint named several additional corporate entities affiliated with the Mann Parties as co-defendants and asserted claims against the Pioneer Parties for declaratory judgment, conversion, actual and constructive fraud, gross negligence, unjust enrichment and constructive trust, and an accounting. The amended complaint sought a monetary judgment of at least \$9.8 million. Each

party has filed numerous motions in the proceedings. On January 10, 2020, the Pioneer Parties moved again to dismiss Southwestern's fraud claim in the amended complaint, which also postponed the Pioneer Parties' deadline to file an answer to the amended complaint until 14 days after the court decided the motion to dismiss. On April 16, 2020, the court granted the Pioneer Parties' motion to dismiss Southwestern's fraud claim. On April 30, 2020, Southwestern filed a motion for both leave to file a second amended complaint and for reconsideration of the court's dismissal of Southwestern's fraud claim. On May 1, 2020, the Pioneer Parties filed their answer to Southwestern's amended complaint. The Pioneer Parties asserted numerous affirmative defenses, counterclaims against Southwestern, and cross-claims against certain of the Mann Parties, including for common law fraud under New York law and violations of the federal Racketeer Influenced and Corrupt Organization Act ("RICO"). The Pioneer Parties contend that the actions of Southwestern and certain of the Mann Parties resulted in damages of \$15.6 million, plus pre-judgment interest. On July 7, 2020, the court granted Southwestern leave to file a second amended complaint, which Southwestern filed on July 16, 2020. Southwestern's second amended complaint asserted claims against the Pioneer Parties for declaratory judgment, conversion, actual and constructive fraud, gross negligence, unjust enrichment and constructive trust, and an accounting – and sought a monetary judgment of at least \$9.8 million. On July 30, 2020, the Pioneer Parties filed an amended answer to Southwestern's second amended complaint, which asserted the same affirmative defenses, counterclaims, and cross-claims as the Pioneer Parties' prior answer to Southwestern's amended complaint. On March 16, 2021, the Pioneer Parties filed a second amended answer to Southwestern's second amended complaint, which asserted certain additional affirmative defenses but was otherwise identical to the Pioneer Parties' amended answer. On October 8, 2021, Southwestern moved for leave to file a proposed third amended complaint, which would add Granite Solutions Groupe, Inc. as a plaintiff and would assert claims against the Pioneer Parties for declaratory judgment, conversion, fraud, negligence/gross negligence, unjust enrichment/money had and received, violations of the RICO, aiding and abetting conversion, and aiding and abetting fraud – and would seek a monetary judgment of at least \$39 million. The Pioneer Parties vigorously dispute the assertions and claims in Southwestern's proposed third amended complaint. On November 15, 2021, the Pioneer Parties filed papers in opposition to Southwestern's motion for leave to file its proposed third amended complaint, which is currently pending in court. This matter is currently in discovery.

On December 10, 2019, National Payment Corp. ("NatPay") filed a motion to intervene as a plaintiff in Southwestern's lawsuit against the Pioneer Parties and the Mann Parties as described above. On January 10, 2020, the Pioneer Parties filed opposition to NatPay's motion to intervene. On August 4, 2020, the magistrate judge issued a decision recommending that NatPay be allowed to intervene, which was subsequently accepted by the court. NatPay filed its complaint in intervention on August 18, 2020. NatPay's complaint includes claims for declaratory judgment, conversion, fraud, gross negligence, unjust enrichment and constructive trust, and for an accounting against the Pioneer Parties. The prayer for relief in NatPay's complaint seeks "compensatory damages in an amount of no less than \$4 million" (the complaint also seeks punitive damages and interest in unspecified amounts). On September 8, 2020, the Pioneer Parties filed their answer and affirmative defenses to NatPay's complaint. On March 16, 2021, the Pioneer Parties filed an amended answer to NatPay's complaint, which asserted certain additional affirmative defenses but was otherwise identical to the Pioneer Parties' answer. On October 8, 2021, NatPay moved for leave to file a proposed amended complaint, which would assert claims against the Pioneer Parties for declaratory judgment, conversion, fraud, negligence/gross negligence, unjust enrichment/money had and received, violations of RICO, aiding and abetting conversion, and aiding and abetting fraud – and would seek a monetary judgment of at least \$11.4 million. The Pioneer Parties vigorously dispute the assertions and claims in NatPay's proposed amended complaint. On November 15, 2021, the Pioneer Parties filed papers in opposition to NatPay's motion for leave to file its proposed amended complaint, which is currently pending in court. This matter is currently in discovery.

On January 21, 2020, Cachet Financial Services ("Cachet"), a third-party automated clearing house service provider, filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code in the Central District of California, Los Angeles Division ("Bankruptcy Court"). The Bank is not listed as a creditor in the bankruptcy proceedings. On January 20, 2022, Cachet filed an adversary proceeding complaint against the Pioneer Parties in the Bankruptcy Court. The complaint alleges Michael T. Mann stole approximately \$26.4 million from Cachet in August 2019 by manipulating Cachet's "batch file specifications," and that Mann subsequently caused approximately \$8.5 million of those purportedly stolen funds to be deposited into accounts held by companies owned by Mann at Pioneer Bank. Cachet alleges Pioneer Bank refused Cachet's request to return the approximately \$8.5 million in purportedly stolen funds to Cachet. Cachet's complaint asserts causes of action against Pioneer for (1) avoidance and recovery of constructive fraudulent transfers, (2) conversion, (3) unjust enrichment, (4) money had and received, (5) violation of California Penal Code § 496(a), and (6) declaratory relief. Cachet's asserts "actual damages" of approximately \$8.5 million, seeks three times its actual damages

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on its Section 496(a) claim (or approximately \$25.6 million), and seeks costs of suit and attorneys' fees. On February 28, 2022, the Pioneer Parties filed a motion to withdraw the reference of the adversary proceeding to the Bankruptcy Court and to transfer venue of the action to the United States District Court for the Northern District of New York (the "Withdrawal/Venue Motion"). That motion currently is pending before the United States District Court for the Central District of California. By order of the Bankruptcy Court dated March 1, 2022, the Pioneer Parties' current deadline to respond to Cachet's complaint is the date that is the 10th calendar day after entry of a final order resolving the Withdrawal/Venue Motion.

On February 4, 2020, Berkshire Hills Bancorp Inc.'s wholly owned subsidiary Berkshire Bank ("Berkshire Bank") filed a complaint against the Bank in the Supreme Court of the State of New York for Albany County resulting from Berkshire Bank's participation interest in the commercial loan relationship to the Mann Entities. The complaint alleges that the Bank (1) breached the amended and restated loan participation agreement between the Bank and Berkshire Bank dated as of June 27, 2018, (2) breached the amended and restated loan participation agreement between the Bank and Berkshire Bank dated as of August 12, 2019, (3) engaged in constructive fraud, (4) engaged in fraudulent inducement, (5) engaged in fraudulent concealment, and (6) negligently misrepresented certain material information. The complaint seeks to recover \$15.6 million and additional damages. On August 14, 2020, the Bank filed a motion to dismiss five of Berkshire Bank's claims. On December 18, 2020, Berkshire Bank filed papers in opposition to the Bank's motion to dismiss. On February 19, 2021, the Bank filed its reply in support of its motion to dismiss. On July 1, 2021, the court granted in part and denied in part the Bank's motion to dismiss. On August 4, 2021, the Bank filed its answer to Berkshire Bank's remaining claims. This matter is currently in discovery.

On February 4, 2020, Chemung Financial Corporation's wholly owned subsidiary, Chemung Canal Trust Company ("Chemung"), filed a complaint against the Bank in the Supreme Court of the State of New York for Albany County resulting from Chemung's participation interest in the commercial loan relationship to the Mann Entities. The complaint alleges that the Bank (1) breached the participation agreement between the Bank and Chemung dated as of August 12, 2019, (2) engaged in fraudulent activities, (3) engaged in constructive fraud, and (4) negligently misrepresented and omitted certain material information. The complaint seeks to recover \$4.2 million and additional damages. On August 14, 2020, the Bank filed a motion to dismiss three of Chemung's four claims. On December 18, 2020, Chemung filed papers in opposition to the Bank's motion to dismiss. On February 19, 2021, the Bank filed its reply in support of its motion to dismiss. On July 1, 2021, the court granted in part and denied in part the Bank's motion to dismiss. On August 4, 2021, the Bank filed its answer to Chemung's remaining claims. This matter is currently in discovery.

On April 30, 2020, the U.S. Department of Justice ("DOJ"), with the authorization of a delegate of the Secretary of the Treasury, filed a civil complaint against the Company and the Bank (and Cloud Payroll, LLC) in the United States District Court for the Northern District of New York. The complaint alleges, among other things, that the Pioneer Parties wrongfully set off approximately \$7.3 million from an account held by Cloud Payroll to apply towards debts allegedly owed to the Bank by Cloud Payroll and other affiliates of Michael Mann. The complaint alleges that the funds in question were comprised of payroll taxes and thus subject to a statutory trust under 26 U.S.C. § 7501 that prohibited the Bank from setting off those funds to apply towards debts owed to the Bank. The complaint seeks return of any payroll taxes, plus interest. The Pioneer Parties moved to dismiss the DOJ's complaint against them on October 1, 2020. On October 21, 2020, the DOJ filed an amended complaint, which mooted the Pioneer Parties' motion to dismiss the DOJ's original complaint. The amended complaint dropped one of the DOJ's claims against the Pioneer Parties but continues to seek return of any payroll taxes, plus interest. The amended complaint relates to the same set of facts described above in "Mann Entities Related Fraudulent Activity", and the alleged payroll taxes, plus interest, sought in this proceeding may be part of the recovery sought in the Southwestern and NatPay complaints described above. On November 4, 2020, the Pioneer Parties filed their answer and affirmative defenses to the DOJ's amended complaint. By order dated November 19, 2021, discovery in this matter was stayed to permit the parties to discuss a potential resolution. On March 2, 2022, the discovery stay was continued until at least June 15, 2022, when the parties are due to submit a joint status report.

On August 31, 2020, AXH Air-Coolers, LLC ("AXH") filed a complaint against the Pioneer Parties, and unnamed employees of the Pioneer Parties in the United States District Court for the Northern District of New York. The complaint alleges that the Pioneer Parties (i) wrongfully converted certain tax funds belonging to AXH, (ii) were unjustly enriched by the wrongful taking of tax funds belonging to AXH, and (iii) were grossly negligent in allowing AXH's tax funds to be misappropriated, offset, converted, or stolen. The prayer for relief in AXH's complaint seeks \$336,000, plus penalties and interest, attorney's fees, and punitive damages. The complaint relates to the same set of facts as the DOJ complaint as

described above, and the alleged taxes sought in the DOJ, Southwestern, and NatPay complaints. On November 5, 2020, the Pioneer Parties moved to dismiss the complaint in its entirety. On November 22, 2021, the court dismissed AXH's conversion, gross negligence, and accounting claims against the Pioneer Parties without prejudice. On December 12, 2021, AXH moved for leave to file a proposed amended complaint, which would assert claims for conversion, gross negligence, and unjust enrichment against the Pioneer Parties and seeks the same damages as AXH's original complaint. The Pioneer Parties vigorously dispute the assertions and claims in AXH's proposed amended complaint. On January 14, 2022, the Pioneer Parties filed papers in opposition to AXH's motion for leave to file its proposed amended complaint, and the Pioneer Parties also cross-moved to dismiss AXH's unjust enrichment claim or, in the alternative, for reconsideration of the court's decision not to dismiss AXH's unjust enrichment claim. AXH's motion for leave to file its proposed amended complaint and the Pioneer Parties' cross-motion to dismiss/for reconsideration are currently pending before the court.

On December 1, 2020, the Bank filed a complaint in the Supreme Court of the State of New York against Teal, Becker & Chiamonte, CPAs, P.C. ("TBC"), Mr. Pasquale M. Scisci and Mr. Vincent Commisso (collectively, with TBC, the "TBC Parties"), alleging professional malpractice by the TBC Parties in auditing the annual consolidated financial statements of Valuewise Corporation and its subsidiaries ("Valuewise Entities") for the fiscal years 2010 to 2018. The Bank asserts that the TBC Parties were aware that the primary, if not the exclusive, reason the Valuewise Entities engaged TBC to audit their financial statements was to provide the Bank with accurate financial information that the Bank would rely on in evaluating whether to provide loans to the Valuewise Entities. The Bank contends that, among other matters, Mr. Michael Mann used the Valuewise Entities to defraud the Bank because of the professional malpractice of the TBC Parties and that if the TBC Parties had not committed professional malpractice by issuing unqualified "clean" opinions on the financial statements of the Valuewise Entities for fiscal years 2010 to 2018, the Bank would never have continued loaning money to the Valuewise Entities. The Bank seeks to recover damages of at least \$34.1 million (plus interest) sustained by it as a result of the professional malpractice of the TBC Parties. The TBC Parties filed their answer to the Bank's complaint on February 12, 2021. This matter has been proceeding through discovery. On February 28, 2022, the TBC Parties filed a motion to dismiss the complaint. The Bank's opposition to that motion currently is due to be filed on or before May 23, 2022.

On April 30, 2021, the Bank filed a complaint in the Supreme Court of the State of New York against Atlantic Specialty Insurance Company ("ASIC"), for breach of an insurance contract, breach of the covenant of good faith and fair dealing, and declaratory judgment. The Bank's complaint alleges that it was insured under a management and professional liability insurance policy issued by ASIC ("Policy"), and that the Bank has incurred losses covered under the Policy as a result of the above-described lawsuits filed by Southwestern, NatPay, DOJ, AXH, Berkshire Bank, and Chemung, and responding to various inquiries and investigations relating to the entities and events that are the subjects of certain of those lawsuits. The Bank's complaint alleges that ASIC has violated the Policy by failing to reimburse the Bank for the full amount of the Bank's loss covered under the Policy, including defense costs. The Bank's complaint seeks a declaratory judgment, damages against ASIC of at least \$1.1 million (plus interest and costs), and consequential damages. The Bank and ASIC reached an out-of-court settlement, and a stipulation discontinuing this litigation was filed with the court on December 23, 2021.

On May 14, 2021, the Bank filed a verified petition for a hearing, pursuant to 21 U.S.C. § 853(n)(2), to adjudicate the validity of the Bank's interest in approximately \$14.9 million in cash and securities forfeited by Michael Mann pursuant to a preliminary order of forfeiture in *U.S. v. Mann* filed in United States District Court for the Northern District of New York. The Bank's petition alleges that it has a valid security interest in the forfeited property, and that the forfeited property should thus be turned over to the Bank. On June 28, 2021, the government filed a motion to dismiss the Bank's petition. On July 30, 2021, the Bank filed opposition to the government's motion to dismiss the Bank's petition. On August 13, 2021, the government filed a reply to the Bank's opposition to the government's motion to dismiss the Bank's petition. The government's motion to dismiss the Bank's petition is pending in court.

The Company and the Bank have received inquiries and requests for information from regulatory agencies relating to some of the entities and events that are the subjects of certain lawsuits described above. This has resulted in, or may in the future result in, regulatory agency investigations, litigation, subpoenas, enforcement actions, and related sanctions or costs. The Company and the Bank continue to cooperate with inquiries and respond to requests as appropriate.

The New York State Department of Financial Services (the "NYDFS") has made requests for production of documents, conducted interviews with Bank employees, and taken other investigatory actions with respect to the Bank's

practices associated with the Mann Parties. The Bank has complied with these requests, producing responsive, non-privileged documents to the NYSDFS. In Summer 2021, NYSDFS informed the Bank that if the parties could not reach a negotiated resolution related to NYSDFS's findings arising from the Bank's practices associated with the Mann Parties, NYSDFS would proceed to an administrative hearing on the issue. It is unknown whether the parties will be able to resolve the matter. A resolution could involve monetary penalties, injunctive relief, and other regulatory consequences. The monetary penalties could be up to \$30.0 million, though, \$15.0 million of these potential monetary penalties relate to and are not incremental to the damages sought by the plaintiffs in the Southwestern, NatPay, DOJ, Cachet, and the AHX proceedings described in this section.

The Company and the Bank continue to investigate these matters and it is possible that the Company and the Bank will be subject to similar legal, regulatory, governmental or other proceedings and additional liabilities. The ultimate outcome of any such proceedings, involving the Company, or the Bank, cannot be predicted with any certainty. It also remains possible that other private parties or governmental bodies will pursue existing or additional claims against the Bank as a result of the Bank's dealings with certain of the Mann Entities or as a result of the actions taken by the Pioneer Parties. The Company's and the Bank's legal fees and expenses related to these actions are significant. In addition, costs associated with potentially prosecuting, litigating or settling any litigation, satisfying any adverse judgments, if any, or other proceedings, could be significant. These legal, regulatory, governmental and other proceedings, claims or investigations, costs, settlements, judgments, sanctions or other expenses could have a material adverse effect on the Company's business prospects, financial condition, results of operations or cash flows or cause significant reputational harm and subject the Company to face civil litigation, significant fines, damage awards or other material regulatory consequences.

11. FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of securities are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

The fair value of interest rate swaps are based on valuation models using observable market data as of the measurement date (Level 2). The fair value of derivatives are classified as a component of other assets and other liabilities on the consolidated statements of condition.

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments result in a Level 3 classification of the inputs for determining fair value.

Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned ("OREO") are measured at fair value, less costs to sell. Fair values are based on recent real estate appraisals. These

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appraisals may use a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments result in a Level 3 classification of the inputs for determining fair value.

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below (dollars in thousands):

		Fair Value Measurements at March 31, 2022 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value			
Assets:				
Available for sale securities:				
U.S. Government and agency obligations	\$ 327,261	\$ 327,261	\$ —	\$ —
Municipal obligations	89,839	—	89,839	—
Other debt securities	643	—	643	—
Total debt securities	417,743	327,261	90,482	—
Equity securities	2,220	2,220	—	—
Derivative assets	4,123	—	4,123	—
Total	<u>\$ 424,086</u>	<u>\$ 329,481</u>	<u>\$ 94,605</u>	<u>\$ —</u>
Liabilities:				
Derivative liabilities	\$ 6,597	\$ —	\$ 6,597	\$ —
Total	<u>\$ 6,597</u>	<u>\$ —</u>	<u>\$ 6,597</u>	<u>\$ —</u>
		Fair Value Measurements at June 30, 2021 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value			
Assets:				
Available for sale securities:				
U.S. Government and agency obligations	\$ 216,041	\$ 216,041	\$ —	\$ —
Municipal obligations	47,797	—	47,797	—
Other debt securities	764	—	764	—
Total debt securities	264,602	216,041	48,561	—
Equity securities	2,879	2,879	—	—
Derivative assets	25,319	—	25,319	—
Total	<u>\$ 292,800</u>	<u>\$ 218,920</u>	<u>\$ 73,880</u>	<u>\$ —</u>
Liabilities:				
Derivative liabilities	\$ 637	\$ —	\$ 637	\$ —
Total	<u>\$ 637</u>	<u>\$ —</u>	<u>\$ 637</u>	<u>\$ —</u>

Assets and Liabilities Measured on a Non-Recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis are summarized below (dollars in thousands):

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value			
March 31, 2022				
Impaired loans:				
Commercial loans	\$ 558	\$ —	\$ —	\$ 558
OREO	—	—	—	—
June 30, 2021				
Impaired loans:				
Commercial loans	\$ 2,675	\$ —	\$ —	\$ 2,675
OREO	365	—	—	365

Impaired loans, which are assets measured at fair value on a non-recurring basis, using the fair value of collateral for collateral dependent loans, had a carrying amount of \$769,000 with a valuation allowance of \$211,000 resulting in an estimated fair value of \$558,000 as of March 31, 2022. Impaired loans, which are assets measured at fair value on a non-recurring basis, using the fair value of collateral for collateral dependent loans, had a carrying amount of \$3.7 million with a valuation allowance of \$1.0 million resulting in an estimated fair value of \$2.7 million as of June 30, 2021.

The Company had no other real estate owned at March 31, 2022. Other real estate owned measured at fair value less costs to sell, had a carrying amount of \$365,000 at June 30, 2021.

The carrying and estimated fair values of financial assets and liabilities were as follows (dollars in thousands):

	March 31, 2022				
	Fair Value Measurements Using				
	Carrying Amount	Estimated Fair Value	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets					
Cash and cash equivalents	\$ 464,766	\$ 464,766	\$ 464,766	\$ —	\$ —
Securities available for sale	417,743	417,743	327,261	90,482	—
Securities held to maturity	25,009	23,877	—	23,877	—
Equity securities	2,220	2,220	2,220	—	—
FHLBNY stock	1,153	1,153	—	1,153	—
Net loans receivable	966,792	944,702	—	—	944,702
Accrued interest receivable	4,391	4,391	—	4,391	—
Derivative assets	4,123	4,123	—	4,123	—
Financial liabilities					
Deposits					
Savings, money market, and demand accounts	\$ 1,628,655	\$ 1,628,655	\$ —	\$ 1,628,655	\$ —
Time deposits	82,759	81,608	—	81,608	—
Mortgagors' escrow deposits	3,462	3,462	—	3,462	—
Accrued interest payable	22	22	—	22	—
Derivative liabilities	6,597	6,597	—	6,597	—

	June 30, 2021				
			Fair Value Measurements Using		
	Carrying Amount	Estimated Fair Value	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets					
Cash and cash equivalents	\$ 324,963	\$ 324,963	\$ 324,963	\$ —	\$ —
Securities available for sale	264,602	264,602	216,041	48,561	—
Securities held to maturity	10,878	10,919	—	10,919	—
Equity securities	2,879	2,879	2,879	—	—
FHLBNY stock	1,215	1,215	—	1,215	—
Net loans receivable	1,081,799	1,094,985	—	—	1,094,985
Accrued interest receivable	4,046	4,046	—	4,046	—
Derivative assets	25,319	25,319	—	25,319	—
Financial liabilities					
Deposits					
Savings, money market, and demand accounts	\$ 1,436,020	\$ 1,436,020	\$ —	\$ 1,436,020	\$ —
Time deposits	94,876	95,597	—	95,597	—
Mortgagors' escrow deposits	5,811	5,811	—	5,811	—
Accrued interest payable	24	24	—	24	—
Derivative liabilities	637	637	—	637	—

Short-Term Financial Instruments

The fair value of certain financial instruments are estimated to approximate their carrying amounts because the remaining term to maturity or period to repricing of the financial instrument is less than ninety days. Such financial instruments include cash and cash equivalents, accrued interest receivable and payable, and mortgagor's escrow deposits.

Securities

Fair values of securities available for sale, securities held to maturity and equity securities are determined as outlined earlier in this footnote.

FHLBNY Stock

The fair value of FHLB stock approximates its carrying value due to transferability restrictions.

Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type, including residential real estate, commercial real estate, and consumer loans and whether the interest rates are fixed and/or variable.

The estimated fair values of performing loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the respective loan portfolio.

Estimated fair values for nonperforming loans are based on estimated cash flows discounted using a rate commensurate with the credit risk involved. Assumptions regarding credit risk, cash flows, and discount rates are judgmentally determined using available market information and specific borrower information.

Derivatives

Fair values of derivative assets and liabilities are determined as outlined earlier in this footnote.

Deposits

The estimated fair value of deposits with no stated maturity, such as savings, money market and demand deposits, is regarded to be the amount payable on demand. The estimated fair value of time deposits is based on the discounted value of contractual cash flows. The discount rate is estimated using market rates for time deposits with similar maturities. The fair value estimates for deposits do not include the benefit that results from the low-cost funding provided by the deposits as compared to the cost of borrowing funds in the market.

12. REVENUE RECOGNITION

In general, for revenue not associated with financial instruments, guarantees and lease contracts, we apply the following steps when recognizing revenue from contracts with customers: (i) identify the contract, (ii) identify the performance obligations, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations and (v) recognize revenue when performance obligation is satisfied. Our contracts with customers are generally short term in nature, typically due within one year or less or cancellable by us or our customer upon a short notice period. Performance obligations for our customer contracts are generally satisfied at a single point in time, typically when the transaction is complete. In some cases, we act in an agent capacity, deriving revenue through assisting other entities in transactions with our customers. In such transactions, we recognized revenue and the related costs to provide our services on a net basis in our financial statements. These transactions primarily relate to insurance and brokerage commissions, and fees derived from our customers' use of various interchange and ATM/debit card networks.

Revenue associated with financial instruments, including revenue from loans and securities is excluded from the scope of the accounting guidance for revenue from contracts with customers. In addition, certain noninterest income streams such as fees associated with mortgage servicing rights, financial guarantees, derivatives, and certain credit card fees are also not in scope of the accounting guidance for revenue from contracts with customers. The accounting guidance for revenue from contracts with customers is applicable to noninterest revenue streams such as deposit related fees, interchange fees, and insurance and wealth management services commissions.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of the accounting guidance for revenue from contracts with customers, for the three and nine months ended March 31, 2022 and 2021.

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2022	2021	2022	2021
	(Dollars in thousands)			
Non-interest Income				
<i>In scope</i>				
Insurance services	\$ 869	\$ 1,254	\$ 2,507	\$ 2,995
Wealth management services	929	833	2,853	2,323
Service charges on deposit accounts	663	593	2,042	1,896
Card services income	719	747	2,322	2,248
Other	73	270	219	270
Non-interest income in scope	3,253	3,697	9,943	9,732
Non-interest income out of scope	360	386	819	2,601
Total non-interest income	<u>\$ 3,613</u>	<u>\$ 4,083</u>	<u>\$ 10,762</u>	<u>\$ 12,333</u>

13. EARNINGS PER SHARE

Basic earnings per share represent income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Unallocated ESOP shares are not deemed outstanding for earnings per share calculations. There were no potentially diluted common stock equivalents as of March 31, 2022 or March 31, 2021.

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2022	2021	2022	2021
(Dollars in thousands, except share and per share amounts)				
Net income applicable to common stock	\$ 302	1,341	\$ 7,916	\$ 4,630
Average number of common shares outstanding	25,977,679	25,977,679	25,977,679	25,977,679
Less: Average unallocated ESOP shares	859,212	910,129	865,577	916,493
Average number of common shares outstanding used to calculate basic and diluted earnings per common share	25,118,467	25,067,550	25,112,102	25,061,186
Net earnings per common share:				
Basic	\$ 0.01	\$ 0.05	\$ 0.31	\$ 0.18
Diluted	\$ 0.01	\$ 0.05	\$ 0.31	\$ 0.18

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

Statement Regarding Forward-Looking Statements

Certain statements contained herein are “forward looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are generally identified by use of the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project” or similar expressions, or future or conditional verbs, such as “will,” “would,” “should,” “could,” or “may.” The Company’s ability to predict results or the actual effect of future plans or strategies is inherently uncertain. No assurance can be given that the future results covered by forward-looking statements will be achieved. Certain forward-looking statements are included in this Form 10-Q, principally in the section captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” In addition to the factors described in Item 1A – Risk Factors, factors which could have a material adverse effect on the operations of the Company and its subsidiaries include, but are not limited to:

- our business, financial condition, liquidity, capital and results of operations have been, and will likely continue to be, adversely affected by the COVID-19 pandemic;
- risks and uncertainties related to the COVID-19 pandemic and resulting governmental and societal response;
- impact on our interest earning asset yield volatility as PPP loans are forgiven by the SBA;
- risks related to the variety of litigation and other proceedings described in the “Legal Proceedings” section;
- general economic conditions, either nationally or in our market area, that are worse than expected;
- competition within our market area that is stronger than expected;
- changes in the level and direction of loan delinquencies and charge-offs and changes in estimates of the adequacy of the allowance for loan losses;
- our ability to access cost-effective funding;
- fluctuations in real estate values and both residential and commercial real estate market conditions;
- demand for loans and deposits in our market area;
- changes in our partnership with a third-party mortgage banking company;
- our ability to maintain sufficient sources of liquidity to satisfy our short and long-term liquidity needs;
- our ability to continue to implement our business strategies;
- competition among depository and other financial institutions;

- inflation and changes in market interest rates that reduce our margins and yields, reduce the fair value of financial instruments or reduce our volume of loan originations, or increase the level of defaults, losses and prepayments on loans we have made and make, whether held in portfolio or sold in the secondary market;
- adverse changes in the securities markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- non-compliance with certain laws and regulations could subject us to fines or other regulatory sanctions;
- our ability to manage market risk, credit risk and operational risk;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- the imposition of tariffs or other domestic or international governmental policies impacting the value of the products of our borrowers;
- our ability to successfully integrate into our operations any assets, liabilities or systems we may acquire, as well as new management personnel or customers, and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto;
- changes in consumer spending, borrowing and savings habits;
- our ability to maintain our reputation;
- our ability to prevent or mitigate fraudulent activity;
- changes in cost of legal expenses, including defending against significant litigation;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission or the Public Company Accounting Oversight Board;
- our ability to retain key employees;
- our ability to evaluate the amount and timing of recognition of future tax assets and liabilities;
- our compensation expense associated with equity benefits allocated or awarded to our employees in the future; and
- changes in the financial condition, results of operations or future prospects of issuers of securities that we own.

Additional factors that may affect our results are discussed in the annual report on Form 10-K for the fiscal year ended June 30, 2021, under the heading “Risk Factors” and this Form 10-Q, under the heading “Risk Factors.” The Company disclaims any obligation to revise or update any forward-looking statements contained in this quarterly report on Form 10-Q to reflect future events or developments.

Overview

Net Interest Income. Our primary source of income is net interest income. Net interest income is the difference between interest income, which is the income we earn on our loans and investments, and interest expense, which is the interest we pay on our deposits and borrowings.

Provision for Loan Losses. The allowance for loan losses is a valuation allowance for probable incurred credit losses. The allowance for loan losses is increased through charges to the provision for loan losses. Loans are charged against the allowance when management believes that the collectability of the principal loan amount is not probable. Recoveries on loans previously charged-off, if any, are credited to the allowance for loan losses when realized. We may incur elevated provision for loan losses and charge-offs due to the adverse impact of the pandemic on the economy of our market area and our customers.

Non-interest Income. Our primary sources of non-interest income are banking fees and service charges, insurance and wealth management services income. Our non-interest income also includes net gains or losses on equity securities, net realized gains or losses on available for sale securities, loans or other assets and other income.

Non-Interest Expenses. Our non-interest expenses consist of salaries and employee benefits, net occupancy and equipment, data processing, advertising and marketing, federal deposit insurance premiums, professional fees, and other general and administrative expenses, as well as employee retention credits.

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Salaries and employee benefits consist primarily of salaries and wages paid to our employees, payroll taxes, and expenses for worker's compensation and disability insurance, health insurance, retirement plans and other employee benefits, as well as commissions and other incentives.

Occupancy and equipment expenses, which are the fixed and variable costs of buildings and equipment, consist primarily of depreciation charges, rental expenses, furniture and equipment expenses, maintenance, real estate taxes and costs of utilities. Depreciation of premises and equipment is computed using a straight-line method based on the estimated useful lives of the related assets or the expected lease terms, if shorter.

Data processing expenses are fees we pay to third parties for use of their software and for processing customer information, deposits and loans.

Advertising and marketing includes most marketing expenses including multi-media advertising (public and in-store), promotional events and materials, civic and sales focused memberships, and community support.

Federal deposit insurance premiums are payments we make to the Federal Deposit Insurance Corporation for insurance of our deposit accounts.

Professional fees includes legal and other consulting expenses.

Litigation-related expense includes expenses related to legal proceedings, exclusive of legal fees and expenses.

Employee retention credit is the benefit recorded related to a refundable credit against certain employment taxes as described in "Recent Developments – COVID-19 Pandemic."

Other expenses include expenses for professional services, office supplies, postage, telephone, insurance and other miscellaneous operating expenses.

Income Tax Expense. Our income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between the carrying amounts and the tax basis of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amounts expected to be realized.

Recent Developments

Acquisitions

On December 10, 2021 and December 22, 2021, respectively, the Company, through its subsidiary, Pioneer Financial Services, Inc., completed the acquisition of certain assets of two practices engaged in the wealth management services business in the Capital Region of New York. The Company paid an aggregate of \$1.5 million in cash and recorded \$728,000 in contingent consideration payable to acquire the assets and recorded an \$890,000 customer list intangible asset and goodwill in the amount of \$1.3 million in conjunction with the acquisitions. The effects of the acquired assets have been included in the consolidated financial statements since the respective acquisition dates. The above referenced acquisitions were made to expand the Company's wealth management services activities.

On March 16, 2022, the Company, through its subsidiary, Pioneer Financial Services, Inc., completed the acquisition of certain assets of a practice engaged in the wealth management services business in the Capital Region of New York. The Company paid \$165,000 in cash and recorded \$130,000 in contingent consideration payable to acquire the assets and recorded a \$118,000 customer list intangible asset and goodwill in the amount of \$177,000 in conjunction with the acquisition. The effects of the acquired assets have been included in the consolidated financial statements since the acquisition date. The above referenced acquisition was made to expand the Company's wealth management services activities.

COVID-19 Pandemic

The COVID-19 crisis is expected to continue to adversely impact the Company's financial results, as well as demand for its services and products in fiscal year 2022 and potentially beyond. The short and long-term implications of the COVID-19 crisis, and related monetary and fiscal stimulus measures, on the Company's future operations, revenues, earnings results, allowance for loan losses, capital reserves, and liquidity are unknown at this time. At this point, the extent to which COVID-19 may impact our future financial condition or results of operations is uncertain and not currently estimable, however the impact could be adverse and material.

Although there is a high degree of uncertainty around the magnitude and duration of the economic impact of the COVID-19 pandemic, the Company's management believes that it was well positioned with adequate levels of capital as of March 31, 2022. At March 31, 2022, all of the Bank's regulatory capital ratios exceeded all well-capitalized standards. More specifically, the Bank's Tier 1 Leverage Ratio, a common measure to evaluate a financial institution's capital strength, was 9.61% at March 31, 2022.

The Bank participated in the PPP, a specialized low-interest (1%) forgivable loan program funded by the U.S. Treasury Department and administered by the SBA. The SBA will guarantee 100% of the PPP loans made to eligible borrowers. As of March 31, 2022, the Bank's commercial loan portfolio included 58 PPP loans totaling \$8.1 million. The Bank assisted a substantial number of its PPP borrowers with forgiveness requests during the third fiscal quarter of 2022 and expects to assist the majority of its remaining PPP borrowers with forgiveness requests during the fourth fiscal quarter of 2022. As of March 31, 2022, the Bank has received forgiveness or loan payoffs related to 909 borrowers' PPP loans for a total of \$107.3 million.

From a credit risk and lending perspective, the Company has taken actions to identify and assess its COVID-19 related credit exposures based on asset class and borrower type. Through March 31, 2022, no specific COVID-19 related credit impairment was identified within the Company's investment securities portfolio, including the Company's municipal securities portfolio. With respect to the Company's lending activities, the Company implemented customer payment deferral programs to assist both consumer and commercial borrowers that may be experiencing financial hardship due to COVID-19 related challenges, whereby short-term deferrals of payments (generally three to six months) have been provided. In relation to its consumer borrowers, as of March 31, 2022, the Company had COVID-19 related financial hardship payment deferrals totaling two loans representing \$699,000 of the Company's residential mortgage, home equity loans and lines of credit, and consumer loan balances. In relation to its commercial borrowers, as of March 31, 2022, the Company had no COVID-19 related financial hardship payment deferrals. Loans in deferment status will continue to accrue interest during the deferment period unless otherwise classified as nonperforming. Consistent with the CARES Act and industry regulatory guidance, borrowers that were otherwise current on loan payments that were granted COVID-19

related financial hardship payment deferrals will continue to be reported as current loans throughout the agreed upon deferral period and not classified as troubled-debt restructured loans. Borrowers that were delinquent in their payments to the Bank prior to requesting a COVID-19 related financial hardship payment deferral, were reviewed on a case by case basis for troubled debt restructure classification and non-performing loan status. In the instances where the Bank granted a payment deferral to a delinquent borrower, the borrower's delinquency status was frozen as of March 20, 2020, and their loans will continue to be reported as delinquent during the deferment period based on their delinquency status as of March 20, 2020. There are borrowers continuing to experience COVID-19 related financial hardships.

The CARES Act provided numerous tax provisions and other stimulus measures, including an employee retention credit ("ERC"), which is a refundable tax credit against certain employment taxes. The Taxpayer Certainty and Disaster Tax Relief Act of 2020 and the American Rescue Plan Act of 2021 extended and expanded the availability of the ERC. As expanded, the ERC is equal to 70% of qualified wages paid to employees (including employer qualified health plan expenses) and is capped at \$10,000 of qualified wages for each employee, such that the maximum ERC that can be claimed is \$7,000 per employee per applicable calendar quarter in 2021. As a result of the Company averaging fewer than 500 full-time employees, all wages paid to employees were eligible for the ERC.

The Company evaluated its eligibility for the ERC in the second fiscal quarter of 2022. The Company determined it qualified for the ERC for the first quarter of calendar 2021, using the alternative quarter election, because the Company's gross receipts decreased more than 20% for the fourth quarter of 2020 from the respective quarter in 2019, and for the second and third quarters of calendar 2021 because the Company's gross receipts decreased more than 20% for each quarter in 2021 from each of the respective quarters of 2019, the relevant criteria for the ERC. The Company has amended certain payroll tax filings to apply for a refund for each of the first three quarters of calendar 2021. The Company cannot reasonably estimate when it will receive the refunds.

Since there is not any GAAP guidance for for-profit business entities that receive government assistance that is not in the form of a loan, an income tax credit or revenue from a contract with a customer, the Company accounted for the employee retention credit by analogy to FASB ASC Subtopic 958-605, Not-for-Profit Entities: Revenue Recognition ("ASC 958-605"). Under ASC 958-605, government grants are recognized when the conditions or conditions on which they depend are substantially met. The conditions for recognition of the ERC include meeting the rules as an eligible employer (meeting the rules for a decline in gross receipts) and incurring qualifying expenses (payroll costs).

During the nine months ended March 31, 2022, the Company recorded an ERC benefit of \$5.0 million in noninterest expenses in the consolidated statements of operations. The Company has recorded an ERC grant receivable of \$5.0 million in other assets in the consolidated statements of condition at March 31, 2022.

Mann Entities Related Fraudulent Activity

During the first fiscal quarter of 2020 (the quarter ended September 30, 2019), the Company became aware of potentially fraudulent activity associated with transactions by an established business customer of the Bank. The customer and various affiliated entities (collectively, the "Mann Entities") had numerous accounts with the Bank. The transactions in question related both to deposit and lending activity with the Mann Entities.

For the fraudulent activity related to the Mann Entities, the Bank's potential exposure with respect to its deposit activity was approximately \$18.5 million. In the first fiscal quarter of 2020, the Bank exercised its rights pursuant to state and federal law and the relevant Mann Entity general deposit account agreements to take actions to set off/recover approximately \$16.0 million from general deposit corporate operating accounts held by the Mann Entities at the Bank to partially cover overdrafts/negative account balances in Mann Entity general deposit corporate operating accounts that primarily resulted from another bank returning/calling back \$15.6 million in checks on August 30, 2019, that the Mann Entities had deposited into and then withdrawn from their accounts at the Bank the day before. In the first fiscal quarter of 2020, the Bank recognized a charge to non-interest expense in the amount of \$2.5 million based on the net negative deposit balance of the various Mann Entities' accounts after the setoffs/overdraft recoveries. Through the end of the third fiscal quarter of 2022, no additional charges to non-interest expense were recognized related to the deposit transactions with the Mann Entities.

With respect to the Bank's lending activity with the Mann Entities, its potential monetary exposure was approximately \$15.8 million (which represents the Bank's participation interest in the approximately \$35.8 million commercial loan relationships for which the Bank is the originating lender). In the fourth fiscal quarter of 2019, the Bank recognized a provision for loan losses in the amount of \$15.8 million, related to the charge-off of the entire principal balance owed to the Bank related to the Mann Entities' commercial loan relationships. During the third fiscal quarter of 2020 and the first fiscal quarter of 2021, the Bank recognized partial recoveries in the amount of \$1.7 million and \$34,000, respectively, related to the charge-off of the Mann Entities' commercial loan relationships, which were credited to the allowance for loan losses. Through the end of the third fiscal quarter of 2022, no additional charges to the provision for loan losses were recognized related to the loan transactions with the Mann Entities.

Several other parties and regulatory agencies are asserting claims against the Company and the Bank related to the series of transactions between the Company or the Bank, on the one hand, and the Mann Entities, on the other. The Company and the Bank continue to investigate these matters and it is possible that the Company and the Bank will be subject to additional liabilities which may have a material adverse effect on our financial condition, results of operations or cash flows. The Company is pursuing all available sources of recovery and other means of mitigating the potential loss, and the Company and the Bank are vigorously defending all claims asserted against them arising out of or otherwise related to the fraudulent activity of the Mann Entities. During the nine months ended March 31, 2022 and 2021, the Bank recognized insurance recoveries in the amount of \$2.9 million and \$547,000, respectively, related to the partial reimbursement of defense costs incurred as a result of these matters, which were credited to noninterest expense – professional fees on the consolidated statement of operations. For additional details regarding legal, other proceedings and related matters, including litigation-related expense, see, "Part II, Item 1 – Legal Proceedings".

Critical Accounting Policies

The discussion and analysis of the financial condition and results of operations are based on our financial statements, which are prepared in conformity with GAAP. The preparation of these financial statements requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of income and expenses. We consider the accounting policies discussed below to be critical accounting policies. The estimates and assumptions that we use are based on historical experience and various other factors and are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions, resulting in a change that could have a material impact on the carrying value of our assets and liabilities and our results of operations.

The Jumpstart Our Business Startups Act of 2012 (the "JOBS Act") contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As an "emerging growth company" we may delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. We intend to take advantage of the benefits of this extended transition period. Accordingly, our financial statements may not be comparable to companies that comply with such new or revised accounting standards.

The following represent our critical accounting policies:

Allowance for Loan Losses. The allowance for loan losses is the amount estimated by management as necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the relevant balance sheet date. The amount of the allowance is based on significant estimates, and the ultimate losses may vary from such estimates as more information becomes available or conditions change. The methodology for determining the allowance for loan losses is considered a critical accounting policy by management due to the high degree of judgment involved, the subjectivity of the assumptions used and the potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses.

As a substantial percentage of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans are critical in determining the amount of the allowance required for specific loans. Assumptions are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly affect the valuation of a property securing a loan and the related allowance determined. Management

carefully reviews the assumptions supporting such appraisals to determine that the resulting values reasonably reflect amounts realizable on the related loans.

Management performs an evaluation of the adequacy of the allowance for loan losses at least quarterly. We consider a variety of factors in establishing this estimate including, but not limited to, current economic conditions, delinquency statistics, credit concentrations, the adequacy of the underlying collateral, the financial strength of the borrower, results of internal loan reviews and other relevant factors. This evaluation is inherently subjective as it requires material estimates by management that may be susceptible to significant change based on changes in economic and real estate market conditions.

The evaluation has specific and general components. The specific component relates to loans that are deemed to be impaired and classified as special mention, substandard, doubtful, or loss. For such loans that are also classified as impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors.

Actual loan losses may be significantly more than the allowance we have established which could have a material negative effect on our financial results.

Fair Value Measurements. The fair value of a financial instrument is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the particular asset or liability in an orderly transaction between market participants on the measurement date. We estimate the fair value of a financial instrument and any related asset impairment using a variety of valuation methods. Where financial instruments are actively traded and have quoted market prices, quoted market prices as of the measurement date are used for fair value. When the financial instruments are not actively traded, other observable market inputs, such as quoted prices of securities with similar characteristics, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data, may be used, if available, to determine fair value. When observable market prices do not exist, we estimate fair value. These estimates are subjective in nature and imprecision in estimating these factors can impact the amount of revenue or loss recorded.

Investment Securities. Available-for-sale and held-to-maturity securities are reviewed by management on a quarterly basis, and more frequently when economic or market conditions warrant, for possible other-than-temporary impairment. In determining other-than-temporary impairment, management considers many factors, including the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospectus of the issuer, whether the market decline was affected by macroeconomic conditions and whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. A decline in value that is considered to be other-than-temporary is recorded as a loss within non-interest income in the statement of income. The assessment of whether other-than-temporary impairment exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time. In order to determine other-than-temporary impairment for mortgage-backed securities, asset-backed securities and collateralized mortgage obligations, we compare the present value of the remaining cash flows as estimated at the preceding evaluation date to the current expected remaining cash flows. Other-than-temporary impairment is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

Pension Obligations. We maintain a non-contributory defined benefit pension plan covering substantially all of our full-time employees. The benefits are developed from actuarial valuations and are based on the employee's years of service and compensation. Actuarial assumptions such as interest rates, expected return on plan assets, turnover, mortality and rates of future compensation increases have a significant impact on the costs, assets and liabilities of the plan. Pension expense is the net of service cost, interest cost, return on plan assets and amortization of gains and losses not immediately recognized.

Legal Proceedings and Other Contingent Liabilities. In the ordinary course of business, we are involved in a number of legal, regulatory, governmental and other proceedings, claims or investigations that could result in losses, including damages, fines and/or civil penalties, which could be significant concerning matters arising from the conduct of

our business. In view of the inherent difficulty of predicting the outcome of such matters, particularly where the claimants seek large or indeterminate damages, we generally cannot predict the eventual outcome of the pending matters, timing of the ultimate resolution of these matters, or eventual loss, fines or penalties related to each pending matter. In accordance with applicable accounting guidance, we establish an accrued liability when those matters present loss contingencies that are both probable and estimable. Our estimate of potential losses will change over time and the actual losses may vary significantly, and there may be an exposure to loss in excess of any amounts accrued. As a matter develops, management, in conjunction with any outside counsel handling the matter, evaluate on an ongoing basis whether such matter presents a loss contingency that is probable and estimable; or where a loss is reasonably possible, whether in excess of a related accrued liability or where there is no accrued liability, whether it is possible to estimate a range of possible loss. Once the loss contingency is deemed to be both probable and estimable, we establish an accrued liability and record a corresponding amount of litigation-related expense. We continue to monitor the matters for further developments that could affect the amount of the accrued liability that has been previously established. These estimates are based upon currently available information and are subject to significant judgment, a variety of assumptions and known and unknown uncertainties. The matters underlying the accrued liability and estimated range of possible losses are unpredictable and may change from time to time, and actual losses may vary significantly from the current estimate and accrual which could have a material negative effect on our financial results. The estimated range of possible loss does not represent our maximum loss exposure.

Income Taxes. Income tax expense (benefit) is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for temporary differences between carrying amounts and the tax basis of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. We recognize interest and/or penalties related to income tax matters in other expense. A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is more than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. Management determines the need for a deferred tax valuation allowance based upon the realizability of tax benefits from the reversal of temporary differences creating the deferred tax assets, as well as the amounts of available open tax carrybacks, if any. At March 31, 2022, no valuation allowance was required.

We exercise significant judgment in evaluating the amount and timing of recognition of the resulting tax assets and liabilities. These judgments require us to make projections of future taxable income. The judgments and estimates we make in determining our deferred tax assets are inherently subjective and are reviewed on a regular basis as regulatory or business factors change. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets. A valuation allowance that results in additional income tax expense in the period in which it is recognized would negatively affect earnings.

Average Balances and Yields

The following tables set forth average balances, average yields and costs, and certain other information for the periods indicated. No tax-equivalent yield adjustments have been made, as the effects would be immaterial. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances. The yields set forth below include the effect of deferred fees, discounts, and premiums that are amortized or accreted to interest income or interest expense, as applicable.

	For the Three Months Ended March 31,					
	2022			2021		
	Average Outstanding Balance	Interest	Average Yield/Cost (4)	Average Outstanding Balance	Interest	Average Yield/Cost (4)
(Dollars in thousands)						
Interest-earning assets:						
Loans	\$ 990,459	\$ 9,312	3.87 %	\$ 1,125,766	\$ 10,608	3.88 %
Securities	414,199	747	0.73 %	164,904	249	0.61 %
Interest-earning deposits and other	368,872	186	0.20 %	256,870	83	0.13 %
Total interest-earning assets	1,773,530	10,245	2.36 %	1,547,540	10,940	2.90 %
Non-interest-earning assets	136,730			149,193		
Total assets	\$ 1,910,260			\$ 1,696,733		
Interest-bearing liabilities:						
Demand deposits	\$ 209,461	\$ 59	0.11 %	\$ 171,360	\$ 50	0.12 %
Savings deposits	314,838	26	0.03 %	277,957	31	0.05 %
Money market deposits	456,442	92	0.08 %	378,930	99	0.11 %
Certificates of deposit	84,539	149	0.72 %	98,105	243	1.01 %
Total interest-bearing deposits	1,065,280	326	0.12 %	926,352	423	0.19 %
Borrowings and other	2,721	13	1.95 %	2,431	15	2.53 %
Total interest-bearing liabilities	1,068,001	339	0.13 %	928,783	438	0.19 %
Non-interest-bearing deposits	574,523			512,529		
Other non-interest-bearing liabilities	25,489			27,701		
Total liabilities	1,668,013			1,469,013		
Total shareholders' equity	242,247			227,720		
Total liabilities and shareholders' equity	\$ 1,910,260			\$ 1,696,733		
Net interest income		\$ 9,906			\$ 10,502	
Net interest rate spread (1)			2.23 %			2.71 %
Net interest-earning assets (2)	\$ 705,529			\$ 618,757		
Net interest margin (3)			2.28 %			2.78 %
Average interest-earning assets to interest-bearing liabilities	166.06 %			166.62 %		

- (1) Net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
- (2) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.
- (3) Net interest margin represents net interest income divided by average total interest-earning assets.
- (4) Annualized.

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For the Nine Months Ended March 31,						
	2022			2021		
	Average Outstanding Balance	Interest	Average Yield/Cost (4)	Average Outstanding Balance	Interest	Average Yield/Cost (4)
(Dollars in thousands)						
Interest-earning assets:						
Loans	\$ 1,024,253	\$ 29,440	3.85 %	\$ 1,131,792	\$ 32,168	3.80 %
Securities	354,695	1,783	0.67 %	129,039	859	0.89 %
Interest-earning deposits and other	356,797	491	0.18 %	190,047	217	0.15 %
Total interest-earning assets	1,735,745	31,714	2.44 %	1,450,878	33,244	3.06 %
Non-interest-earning assets	136,860			149,475		
Total assets	\$ 1,872,605			\$ 1,600,353		
Interest-bearing liabilities:						
Demand deposits	\$ 192,057	\$ 176	0.12 %	\$ 138,482	\$ 123	0.12 %
Savings deposits	308,346	77	0.03 %	267,975	101	0.05 %
Money market deposits	460,871	283	0.08 %	359,432	430	0.16 %
Certificates of deposit	88,523	491	0.74 %	104,845	996	1.27 %
Total interest-bearing deposits	1,049,797	1,027	0.13 %	870,734	1,650	0.25 %
Borrowings and other	3,742	53	1.89 %	3,742	62	2.18 %
Total interest-bearing liabilities	1,053,539	1,080	0.14 %	874,476	1,712	0.26 %
Non-interest-bearing deposits	558,147			476,476		
Other non-interest-bearing liabilities	21,109			23,808		
Total liabilities	1,632,795			1,374,760		
Total shareholders' equity	239,809			225,593		
Total liabilities and shareholders' equity	\$ 1,872,604			\$ 1,600,353		
Net interest income		\$ 30,634			\$ 31,532	
Net interest rate spread (1)			2.30 %			2.80 %
Net interest-earning assets (2)	\$ 682,206			\$ 576,402		
Net interest margin (3)			2.36 %			2.91 %
Average interest-earning assets to interest-bearing liabilities	164.75 %			165.91 %		

- (1) Net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
- (2) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.
- (3) Net interest margin represents net interest income divided by average total interest-earning assets.
- (4) Annualized.

Rate/Volume Analysis

The following table presents the effects of changing rates and volumes on our net interest income for the periods indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The total column represents the sum of the prior two columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately based on the changes due to rate and the changes due to volume.

	Three Months Ended March 31, 2022 vs. 2021			Nine Months Ended March 31, 2022 vs. 2021		
	Increase (Decrease) Due to		Total	Increase (Decrease) Due to		Total
	Volume	Rate	Increase (Decrease)	Volume	Rate	Increase (Decrease)
	(Dollars in thousands)					
Interest-earning assets:						
Loans	\$ (1,272)	\$ (24)	\$ (1,296)	\$ (3,091)	\$ 363	\$ (2,728)
Securities	441	57	498	1,180	(256)	924
Interest-earning deposits and other	45	58	103	222	52	274
Total interest-earning assets	(786)	91	(695)	(1,689)	159	(1,530)
Interest-bearing liabilities:						
Demand deposits	11	(2)	9	49	4	53
Savings deposits	4	(9)	(5)	14	(38)	(24)
Money market deposits	18	(25)	(7)	100	(247)	(147)
Certificates of deposit	(30)	(64)	(94)	(137)	(368)	(505)
Total interest-bearing deposits	3	(100)	(97)	26	(649)	(623)
Borrowings and other	2	(4)	(2)	—	(9)	(9)
Total interest-bearing liabilities	5	(104)	(99)	26	(658)	(632)
Change in net interest income	\$ (791)	\$ 195	\$ (596)	\$ (1,715)	\$ 817	\$ (898)

Comparison of Financial Condition at March 31, 2022 and June 30, 2021

Total Assets. Total assets increased \$177.9 million, or 9.9%, to \$1.97 billion at March 31, 2022 from \$1.80 billion at June 30, 2021. The increase was due primarily to an increase of \$153.1 million, or 57.9%, in securities available for sale as well as an increase of \$139.8 million, or 43.0%, in cash and cash equivalents partially offset by a decrease of \$115.0 million, or 10.6%, in net loans receivable.

Cash and Cash Equivalents. Total cash and cash equivalents increased \$139.8 million, or 43.0%, to \$464.8 million at March 31, 2022 from \$325.0 million at June 30, 2021. This increase was primarily a result of a net increase in deposits of \$180.5 million and a net decrease in loans of \$115.0 million offset by a net increase in securities available for sale of \$153.1 million during the nine months ended March 31, 2022.

Securities Available for Sale. Total securities available for sale increased \$153.1 million, or 57.9%, to \$417.7 million at March 31, 2022 from \$264.6 million at June 30, 2021. The increase was primarily due to purchases of U.S Government and agency obligations and municipal obligations during the nine months ended March 31, 2022.

Securities Held to Maturity. Total securities held to maturity increased \$14.1 million, or 129.9%, to \$25.0 million at March 31, 2022 from \$10.9 million at June 30, 2021 primarily due to the purchases of corporate debt securities, as well as, purchases of other municipal obligations offset by scheduled maturities of municipal obligations during the nine months ended March 31, 2022.

Equity Securities. Total equity securities decreased \$659,000, or 22.9%, to \$2.2 million at March 31, 2022 from \$2.9 million at June 30, 2021 primarily due to the sale of various securities for proceeds of \$803,000 offset in part by investment gains during the nine months ended March 31, 2022.

Net Loans. Net loans of \$966.8 million at March 31, 2022 decreased \$115.0 million, or 10.6%, from \$1.08 billion at June 30, 2021. By loan category, commercial and industrial loans decreased by \$66.2 million, or 39.4%, to \$101.7 million at March 31, 2022 from \$167.9 million at June 30, 2021, commercial real estate loans decreased by \$24.6 million,

or 5.0%, to \$464.5 million at March 31, 2022 from \$490.1 million at June 30, 2021, commercial construction loans decreased by \$20.2 million, or 31.1%, to \$44.7 million at March 31, 2022 from \$64.9 million at June 30, 2021, one-to four-family residential real estate loans decreased by \$6.4 million, or 2.3%, to \$273.1 million at March 31, 2022 from \$279.5 million at June 30, 2021, and consumer loans decreased \$1.8 million, or 6.9%, to \$23.8 million at March 31, 2022 from \$25.6 million at June 30, 2021. These decreases were marginally offset by an increase in home equity loans and lines of credit of \$2.0 million, or 2.7%, to \$77.5 million at March 31, 2022 from \$75.5 million at June 30, 2021. The decrease in commercial and industrial loans was related to forgiveness of PPP loans which declined \$43.4 million from \$51.5 million at June 30, 2021 to \$8.1 million at March 31, 2022, as well as, paydowns and reduced line of credit utilization during the nine months ended March 31, 2022. The decrease in commercial construction loans was related to the conversion of loans to permanent financing. The decrease in commercial real estate loans and one-to-four family residential real estate loans were both related to loan payoffs outpacing loan funding and construction conversions to permanent financing. The decrease in consumer loans was related to reduced line of credit utilization. The increase in home equity loans and lines of credit was related to loan originations outpacing amortization and prepayments. The ultimate impact that the COVID-19 pandemic will have on loan demand and our loan balances for the rest of fiscal 2022 remains uncertain at this time. Further, the longer-term implications that the COVID-19 pandemic will have on commercial loan demand continues to be uncertain.

Deposits. Total deposits increased \$180.5 million, or 11.8%, to \$1.71 billion at March 31, 2022 from \$1.53 billion at June 30, 2021. The increase in deposits was primarily related to an increase in non-interest bearing demand accounts of \$97.5 million, or 19.3%, to \$602.4 million at March 31, 2022 from \$504.9 million at June 30, 2021, an increase in demand accounts of \$51.0 million, or 29.0%, to \$226.8 million at March 31, 2022 from \$175.8 million at June 30, 2021, an increase in money market accounts of \$22.7 million, or 5.0%, to \$477.2 million at March 31, 2022 from \$454.5 million at June 30, 2021 and an increase in savings accounts of \$21.4 million, or 7.1%, to \$322.2 million at March 31, 2022 from \$300.8 million at June 30, 2021. These increases were partially offset by a decrease in certificates of deposit of \$12.1 million, or 12.8%, to \$82.8 million at March 31, 2022 from \$94.9 million at June 30, 2021. The increase in non-interest-bearing demand accounts, interest-bearing demand accounts and money market accounts was primarily related to growth in municipal deposits and commercial deposit relationships, of which a portion was due to seasonality. The increase in savings accounts was principally related to growth in existing consumer depositor accounts. The decrease in certificates of deposit was primarily due to the maturity of various accounts.

Total Shareholders' Equity. Total shareholders' equity decreased \$737,000, or 0.3%, to \$237.1 million at March 31, 2022 from \$237.8 million at June 30, 2021 primarily as a result of an increase in unrealized holding losses on securities available for sale of \$9.1 million due to the increase in interest rates, largely offset by net income of \$7.9 million for the nine month period ended March 31, 2022 and increases in the unallocated common stock of the ESOP of \$512,000.

Comparison of Operating Results for the Three Months Ended March 31, 2022 and March 31, 2021

General. Net income decreased by \$1.0 million, or 77.5%, to \$302,000 for the three months ended March 31, 2022 as compared to \$1.3 million for the three months ended March 31, 2021. The decrease was primarily due to a \$1.4 million increase in non-interest expense, a \$596,000 decrease in net interest income and a \$470,000 decrease in non-interest income, partially offset by a \$1.3 million decrease in the provision for loan losses and a \$142,000 decrease in income tax expense.

Interest and Dividend Income. Interest and dividend income decreased \$695,000, or 6.4%, to \$10.2 million for the three months ended March 31, 2022, from \$10.9 million for the three months ended March 31, 2021 primarily due to a decrease in interest income on loans, offset in part by increases in interest income on securities and interest-earning deposits and other. The decrease was the result of a 54 basis points decrease in the average yield on interest-earning assets to 2.36% for the three months ended March 31, 2022, from 2.90% for the three months ended March 31, 2021. Average interest-earning assets increased by \$226.0 million from \$1.55 billion for the three months ended March 31, 2021 to \$1.77 billion for the three months ended March 31, 2022.

Interest income on loans decreased \$1.3 million, or 12.2%, to \$9.3 million for the three months ended March 31, 2022 from \$10.6 million for the three months ended March 31, 2021. Interest income on loans decreased primarily due to a \$135.3 million decrease in the average balance of loans to \$990.5 million for the three months ended March 31, 2022 from \$1.13 billion for the three months ended March 31, 2021, as well as a one basis point decrease in the average yield

on loans to 3.87% for the three months ended March 31, 2022 from 3.88% for the three months ended March 31, 2021. The decrease in the average balance of loans was principally due to commercial loan payoffs and forgiveness of customer PPP loans.

Interest income on securities increased \$498,000, or 200.0%, to \$747,000 for the three months ended March 31, 2022 from \$249,000 for the three months ended March 31, 2021. Interest income on securities increased due to a \$249.3 million increase in the average balance of securities to \$414.2 million for the three months ended March 31, 2022 from \$164.9 million for the three months ended March 31, 2021, as well as a 12 basis points increase in the average yield on securities to 0.73% for the three months ended March 31, 2022 from 0.61% for the three months ended March 31, 2021. The increase in the average balance of securities was due to purchases of U.S. government and agency and municipal obligation securities outpacing maturities and sales throughout the later part of calendar year 2021 and during the three months ended March 31, 2022. The increase in average yield on securities was due to higher market rates of interest for new securities that were purchased during the quarter ended March 31, 2022 replacing scheduled maturities of lower yielding U.S. government and agency and municipal obligation securities.

Interest income on interest-earning deposits and other increased \$103,000, or 124.1%, to \$186,000 for the three months ended March 31, 2022 from \$83,000 for the three months ended March 31, 2021. Interest income on interest-earning deposits and other increased due to a seven basis points increase in the average yield on interest-earning deposits and other to 0.20% for the three months ended March 31, 2022 from 0.13% for the three months ended March 31, 2021, as well as an increase of \$112.0 million in average balances on interest-earning deposits and other to \$368.9 million for the three months ended March 31, 2022 from \$256.9 million for the three months ended March 31, 2021.

Interest Expense. Interest expense decreased \$99,000, or 22.6%, to \$339,000 for the three months ended March 31, 2022 from \$438,000 for the three months ended March 31, 2021 as a result of a decrease in interest expense on deposits. The decrease primarily reflected a six basis points decrease in the average cost of interest-bearing liabilities to 0.13% for the three months ended March 31, 2022 from 0.19% for the three months ended March 31, 2021, offset in part by a \$139.2 million increase in the average balance of interest-bearing liabilities.

Interest expense on interest-bearing deposits decreased \$97,000, or 22.9%, to \$326,000 for the three months ended March 31, 2022 from \$423,000 for the three months ended March 31, 2021. Interest expense on interest-bearing deposits decreased primarily due to a seven basis points decrease in the average cost of interest-bearing deposits to 0.12% for the three months ended March 31, 2022 from 0.19% for the three months ended March 31, 2021, offset, in part, by a \$138.9 million increase in the average balance of interest-bearing deposits to \$1.07 billion for the three months ended March 31, 2022 from \$926.4 million for the three months ended March 31, 2021. The decrease in the average cost of deposits was a result of lower market deposit rates, as well, as repricing of certificates of deposit that have matured over the last twelve months. The increase in average interest-bearing deposits was primarily due to increases in various deposit categories throughout the later part of calendar year 2021 and during the quarter ended March 31, 2022, centered primarily in municipal interest-bearing deposit accounts.

Net Interest Income. Net interest income decreased \$596,000, or 5.7%, to \$9.9 million for the three months ended March 31, 2022 compared to \$10.5 million for the three months ended March 31, 2021. The decrease was a result of a 48 basis points decrease in the net interest rate spread to 2.23% for the three months ended March 31, 2022 from 2.71% for the three months ended March 31, 2021. The net interest margin decreased 50 basis points to 2.28% for the three months ended March 31, 2022 from 2.78% for the three months ended March 31, 2021, partially offset by a \$86.8 million increase in the average balance of net interest-earning assets to \$705.5 million for the three months ended March 31, 2022 from \$618.8 million for the three months ended March 31, 2021.

Provision for Loan Losses. No provision for loan losses was recorded for the three months ended March 31, 2022 compared to \$1.3 million for the three months ended March 31, 2021. Net charge-offs decreased to \$63,000 for the three months ended March 31, 2022, compared to \$1.6 million for the three months ended March 31, 2021. Non-performing assets decreased to \$16.1 million, or 0.82% of total assets, at March 31, 2022, compared to \$22.1 million, or 1.23% of total assets, at March 31, 2021. The allowance for loan losses was \$22.6 million, or 2.29% of total loans outstanding, at March 31, 2022 and \$23.1 million, or 1.99% of total net loans outstanding, at March 31, 2021.

Non-Interest Income. Non-interest income decreased \$470,000, or 11.5%, to \$3.6 million for the three months ended March 31, 2022 from \$4.1 million for the three months ended March 31, 2021. The decrease was primarily due to a decrease in insurance and wealth management services by \$289,000, a decrease in bank fees and service charges by \$155,000 and a decline in net gain on equity securities to \$26,000 for the three months ended March 31, 2022 as compared to a net gain on equity securities of \$217,000 for the three months ended March 31, 2021. The declines were offset, in part, by a \$213,000 net gain on the disposal of assets. The decrease in income attributable to our insurance and wealth management services was primarily due to lower insurance services income. The lower net gain on equity securities during the three months ended March 31, 2022 as compared to the three months ended March 31, 2021 was due to declining equity market performance. The decrease in bank fees and service charges was primarily due to lower loan-related fee income. The net gain on the disposal of assets was related to the sale of other real estate owned.

Non-Interest Expense. Non-interest expense increased \$1.4 million, or 11.7%, to \$13.1 million for the three months ended March 31, 2022 as compared to \$11.7 million for the three months ended March 31, 2021. The increase in non-interest expense was primarily due to the \$1.2 million litigation-related expense (see Part II, Item 1 – “Legal Proceedings,” for details), as well as an increase in other non-interest expenses of \$372,000, partially offset by a decrease in salaries and employee benefits expense of \$210,000. Other expense increased primarily due to higher insurance premiums. Salaries and employee benefits expense primarily decreased due primarily to lower net periodic pension expense.

Income Tax Expense. Income tax expense decreased \$142,000 to \$154,000 for the three months ended March 31, 2022 from \$296,000 for the three months ended March 31, 2021, due to a decrease in income before income taxes. Our effective tax rate was 33.8% for the three months ended March 31, 2022 compared to 18.1% for the three months ended March 31, 2021. The increase in our effective tax rate was primarily due to the increase in the New York State alternative tax on apportioned capital to 0.1875%.

Comparison of Operating Results for the Nine Months Ended March 31, 2022 and March 31, 2021

General. Net income increased by \$3.3 million, or 71.0%, to \$7.9 million for the nine months ended March 31, 2022 as compared to \$4.6 million for the nine months ended March 31, 2021. The increase was primarily due to a \$3.7 million decrease in non-interest expense and a \$3.3 million decrease in the provision for loan losses, partially offset by a \$1.6 million decrease in non-interest income, a \$898,000 decrease in net interest income and a \$1.2 million increase in income tax expense.

Interest and Dividend Income. Interest and dividend income decreased \$1.5 million, or 4.6%, to \$31.7 million for the nine months ended March 31, 2022, from \$33.2 million for the nine months ended March 31, 2021 primarily due to a decrease in interest income on loans, offset in part by increases in interest income on securities and interest-earning deposits and other. The decrease was the result of a 62 basis points decrease in the average yield on interest-earning assets to 2.44% for the nine months ended March 31, 2022, from 3.06% for the nine months ended March 31, 2021. Average interest-earning assets increased by \$284.9 million from \$1.45 billion for the nine months ended March 31, 2021 to \$1.74 billion for the nine months ended March 31, 2022.

Interest income on loans decreased \$2.7 million, or 8.5%, to \$29.4 million for the nine months ended March 31, 2022 from \$32.2 million for the nine months ended March 31, 2021. Interest income on loans decreased primarily due to a \$107.5 million decrease in the average balance of loans to \$1.02 billion for the nine months ended March 31, 2022 from \$1.13 billion for the nine months ended March 31, 2021, partially offset by a five basis points increase in the average yield on loans to 3.85% for the nine months ended March 31, 2022 from 3.80% for the nine months ended March 31, 2021. The decrease in the average balance of loans was due to commercial loan payoffs and forgiveness of customer PPP loans. The increase in the average yield on loans was primarily due to the recognition of deferred loan fee income associated with the forgiveness of customer PPP loans as well as the recognition of interest income related to certain non-accrual loans that paid off.

Interest income on securities increased \$924,000, or 107.6%, to \$1.8 million for the nine months ended March 31, 2022 from \$859,000 for the nine months ended March 31, 2021. Interest income on securities increased due to a \$225.7 million increase in the average balance of securities to \$354.7 million for the nine months ended March 31, 2022 from \$129.0 million for the nine months ended March 31, 2021, partially offset by a 22 basis points decrease in the average

yield on securities to 0.67% for the nine months ended March 31, 2022 from 0.89% for the nine months ended March 31, 2021. The increase in the average balance of securities was due to purchases of U.S. government and agency and municipal obligation securities outpacing maturities and sales during the nine months ended March 31, 2022 as compared to the same period in the previous year. The decrease in average yield on securities was due to scheduled maturities of higher yielding U.S. government and agency and municipal obligation securities, as well as, decreased market rates of interest for new securities that were purchased during the majority of the nine months ended March 31, 2022.

Interest income on interest-earning deposits and other increased \$274,000, or 126.3%, to \$491,000 for the nine months ended March 31, 2022 from \$217,000 for the nine months ended March 31, 2021. Interest income on interest-earning deposits and other increased due to an increase of \$166.8 million in average balances on interest-earning deposits and other to \$356.8 million for the nine months ended March 31, 2022 from \$190.0 million for the nine months ended March 31, 2021.

Interest Expense. Interest expense decreased \$632,000, or 36.9%, to \$1.1 million for the nine months ended March 31, 2022 from \$1.7 million for the nine months ended March 31, 2021 as a result of a decrease in interest expense on deposits. The decrease primarily reflected a 12 basis points decrease in the average cost of interest-bearing liabilities to 0.14% for the nine months ended March 31, 2022 from 0.26% for the nine months ended March 31, 2021, offset in part by a \$179.1 million increase in the average balance of interest-bearing liabilities.

Interest expense on interest-bearing deposits decreased \$623,000, or 37.8%, to \$1.0 million for the nine months ended March 31, 2022 from \$1.7 million for the nine months ended March 31, 2021. Interest expense on interest-bearing deposits decreased primarily due to a 12 basis points decrease in the average cost of interest-bearing deposits to 0.13% for the nine months ended March 31, 2022 from 0.25% for the nine months ended March 31, 2021, offset, in part, by a \$179.0 million increase in the average balance of interest-bearing deposits to \$1.05 billion for the nine months ended March 31, 2022 from \$870.7 million for the nine months ended March 31, 2021. The decrease in the average cost of deposits was a result of lower market deposit rates, as well, as repricing of certificates of deposit that have matured over the last twelve months. The increase in average interest-bearing deposits was primarily due to increases in various deposit categories during the nine months ended March 31, 2022 as compared to the same period in the previous year, centered primarily in municipal and consumer interest-bearing deposit accounts.

Net Interest Income. Net interest income decreased \$898,000, or 2.8%, to \$30.6 million for the nine months ended March 31, 2022 compared to \$31.5 million for the nine months ended March 31, 2021. The decrease was a result of a 50 basis points decrease in the net interest rate spread to 2.30% for the nine months ended March 31, 2022 from 2.80% for the nine months ended March 31, 2021. The net interest margin decreased 55 basis points to 2.36% for the nine months ended March 31, 2022 from 2.91% for the nine months ended March 31, 2021, partially offset by a \$105.8 million increase in the average balance of net interest-earning assets to \$682.2 million for the nine months ended March 31, 2022 from \$576.4 million for the nine months ended March 31, 2021.

Provision for Loan Losses. We recorded provisions for loan losses of \$250,000 for the nine months ended March 31, 2022 compared to \$3.6 million for the nine months ended March 31, 2021. Net charge-offs decreased to \$934,000 for the nine months ended March 31, 2022, compared to \$3.3 million for the nine months ended March 31, 2021. Non-performing assets decreased to \$16.1 million, or 0.82% of total assets, at March 31, 2022, compared to \$22.1 million, or 1.23% of total assets, at March 31, 2021. The allowance for loan losses was \$22.6 million, or 2.29% of total loans outstanding, at March 31, 2022 and \$23.1 million, or 1.99% of total net loans outstanding, at March 31, 2021.

Non-Interest Income. Non-interest income decreased \$1.6 million, or 12.7%, to \$10.8 million for the nine months ended March 31, 2022 from \$12.3 million for the nine months ended March 31, 2021. The decrease was primarily due to a decline in net gain on equity securities to \$144,000 for the nine months ended March 31, 2022 as compared to a net gain on equity securities of \$1.6 million for the nine months ended March 31, 2021 and a decrease in bank fees and service charges by \$158,000, offset, in part, by an increase in net gains on disposal of assets of \$259,000. The lower net gain on equity securities during the nine months ended March 31, 2022 as compared to the nine months ended March 31, 2021 was due to declining equity market performance. The decrease in bank fees and service charges was primarily due to lower loan-related fee income. The net gain on the disposal of assets was related to the sale of other real estate owned.

Non-Interest Expense. Non-interest expense decreased \$3.7 million, or 10.6%, to \$30.9 million for the nine months ended March 31, 2022 as compared to \$34.5 million for the nine months ended March 31, 2021. The decrease in non-interest expense was primarily due to the recognition of employee retention credits totaling \$5.0 million as well as a \$629,000 decrease in salaries and employee benefits expense and a \$406,000 decrease in professional fees, offset in part by the \$1.2 million litigation-related expense (see Part II, Item 1 – “Legal Proceedings,” for details), a \$367,000 increase in data processing costs, a \$344,000 increase in net occupancy and equipment and a \$754,000 increase in other expenses. Salaries and employee benefits expense decreased primarily due to lower net periodic pension expense. Professional fees decreased primarily due to the recognition of insurance recoveries related to the partial reimbursement of defense costs incurred as a result of the Mann Entities matter. Data processing costs increased due to an increase in online and mobile banking transaction volumes, as well as, add-on services from our core processing service provider. Net occupancy and equipment costs increased due to contractual cost increases in service contracts. The increase in other expenses was principally due to increased insurance premiums.

Income Tax Expense. Income tax expense increased \$1.2 million to \$2.4 million for the nine months ended March 31, 2022 from \$1.2 million for the nine months ended March 31, 2021, primarily due to an increase in income before income taxes. Our effective tax rate was 23.1% for the nine months ended March 31, 2022 compared to 19.9% for the nine months ended March 31, 2021. The increase in our effective tax rate was primarily due to the increase in the New York State alternative tax on apportioned capital to 0.1875%.

Asset Quality and Allowance for Loan Losses

Asset Quality. Loans are reviewed on a regular basis. Management determines that a loan is impaired or non-performing when it is probable that at least a portion of the loan will not be collected in accordance with the original terms due to a deterioration in the financial condition of the borrower or the value of the underlying collateral if the loan is collateral dependent. When a loan is determined to be impaired, the measurement of the loan in the allowance for loan losses is based on the present value of expected future cash flows, except that all collateral-dependent loans are measured for impairment based on the fair value of the collateral. Non-accrual loans are loans for which collectability is questionable and, therefore, interest on such loans will no longer be recognized on an accrual basis. All loans that become 90 days or more delinquent are placed on non-accrual status unless the loan is well secured and is in the process of collection. When loans are placed on non-accrual status, unpaid accrued interest is fully reversed, and further income is recognized only to the extent received on a cash basis or cost recovery method.

When we acquire real estate as a result of foreclosure, the real estate is classified as real estate owned. The real estate owned is recorded at the lower of carrying amount or fair market value, less estimated costs to sell. Any excess of the recorded value of the loan over the fair market value of the property is charged against the allowance for loan losses, or, if the existing allowance is inadequate, charged to expense in the current period. After acquisition, all costs incurred in maintaining the property are expensed. Costs relating to the development and improvement of the property, however, are capitalized to the extent of estimated fair value less estimated costs to sell.

A loan is classified as a troubled debt restructuring if, for economic or legal reasons related to the borrower’s financial difficulties, we grant a concession to the borrower that we would not otherwise consider. This usually includes a modification of loan terms, such as a reduction of the interest rate to below market terms, capitalizing past due interest or extending the maturity date and possibly a partial forgiveness of the principal amount due. Interest income on restructured loans is accrued after the borrower demonstrates the ability to pay under the restructured terms through a sustained period of repayment performance, which is generally six consecutive months.

Pursuant to the CARES Act and as further modified by the 2021 Appropriations Act, financial institutions have the option to temporarily suspend certain requirements under GAAP related to troubled debt restructurings for a limited period of time to account for the effects of COVID-19. This provision allows a financial institution the option to not apply the guidance on accounting for troubled debt restructurings to loan modifications, such as extensions or deferrals, related to COVID-19 made between March 1, 2020 and January 1, 2022. The relief can only be applied to modifications for borrowers that were not more than 30 days past due as of December 31, 2019. The Bank elected to adopt these provisions of the CARES Act.

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The table below sets forth the amounts and categories of our non-performing assets at the dates indicated. There were no non-accruing troubled debt restructurings as of March 31, 2022 and June 30, 2021.

	At March 31, 2022	At June 30, 2021
	(Dollars in thousands)	
Non-accrual loans:		
Commercial real estate	\$ 5,987	\$ 10,527
Commercial and industrial	39	465
Commercial construction	—	550
One- to four-family residential real estate	4,504	4,993
Home equity loans and lines of credit	1,668	2,043
Consumer	—	187
Total non-accrual loans	<u>12,198</u>	<u>18,765</u>
Accruing loans past due 90 days or more:		
Commercial real estate	3,013	1,476
Commercial and industrial	241	1,525
Commercial construction	617	145
One- to four-family residential real estate	55	—
Home equity loans and lines of credit	—	—
Consumer	—	15
Total accruing loans past due 90 days or more	<u>3,926</u>	<u>3,161</u>
Real estate owned:		
Commercial real estate	—	—
Commercial and industrial	—	—
Commercial construction	—	—
One- to four-family residential real estate	—	365
Home equity loans and lines of credit	—	—
Consumer	—	—
Total real estate owned	<u>—</u>	<u>365</u>
Total non-performing assets	<u>\$ 16,124</u>	<u>\$ 22,291</u>
Total accruing troubled debt restructured loans	<u>\$ 2,191</u>	<u>\$ 2,200</u>
Total non-performing loans to total loans	1.63 %	1.99 %
Total non-performing assets to total assets	0.82 %	1.24 %

Non-accrual loans decreased \$6.6 million to \$12.2 million at March 31, 2022 from \$18.8 million at June 30, 2021 primarily due to two commercial real estate loans with a combined balance of \$4.1 million as of June 30, 2021 that were paid in full during the second quarter of fiscal 2022, a commercial construction loan of \$550,000 that was transferred to real estate owned and a commercial and industrial loan charge-off of \$380,000. Accruing loans past due 90 days or more increased \$765,000 to \$3.9 million at March 31, 2022 from \$3.2 million at June 30, 2021 primarily due to commercial real estate loans that became 90 days or more past due at March 31, 2022, largely offset by commercial and industrial loans that were brought current as of March 31, 2022.

Classified Assets. Federal regulations provide for the classification of loans and other assets, such as debt and equity securities considered to be of lesser quality, as “substandard,” “doubtful” or “loss.” An asset is considered “substandard” if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. “Substandard” assets include those characterized by the “distinct possibility” that the insured institution will sustain “some loss” if the deficiencies are not corrected. Assets classified as “doubtful” have all of the weaknesses inherent in those classified “substandard,” with the added characteristic that the weaknesses present make “collection or liquidation in full,” on the basis of currently existing facts, conditions, and values, “highly questionable and improbable.” Assets classified as “loss” are those considered “uncollectible” and of such little value that their continuance as assets without the establishment of a specific loss allowance is not warranted. Assets which do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are designated as “special mention.”

When an insured institution classifies problem assets as either substandard or doubtful, it may establish general allowances in an amount deemed prudent by management to cover probable accrued losses. General allowances represent loss allowances which have been established to cover probable accrued losses associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies problem assets as “loss,” it is required either to establish a specific allowance for losses equal to 100% of that portion of the asset so classified or to charge-off such amount. An institution’s determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the regulatory authorities, which may require the establishment of additional general or specific loss allowances.

The following table sets forth our amounts of all classified loans and loans designated as special mention as of March 31, 2022 and June 30, 2021.

	At March 31, 2022	At June 30, 2021
	(In thousands)	
Classification of Loans:		
Substandard	\$ 55,507	\$ 38,411
Doubtful	39	3,043
Loss	—	—
Total Classified Loans	<u>\$ 55,546</u>	<u>\$ 41,454</u>
Special Mention	<u>\$ 8,757</u>	<u>\$ 34,860</u>

Total substandard loans increased \$17.1 million to \$55.5 million at March 31, 2022 from \$38.4 million at June 30, 2021 primarily due to the addition of two commercial real estate loan relationships in the accommodation and food service industry totaling \$17.1 million and \$8.0 million, offset in part by loan payoffs.

Total doubtful loans decreased \$3.0 million to \$39,000 at March 31, 2022 from \$3.0 million at June 30, 2021 primarily due to the payoff of a \$2.1 million commercial real estate loan, the charge-offs of three loans totaling \$509,000 and the upgrade of one commercial real estate loan relationship to the substandard category.

Total special mention commercial loans decreased \$26.1 million to \$8.8 million at March 31, 2022 from \$34.9 million at June 30, 2021 due to \$8.1 million of loan migrations into the pass category and \$8.0 million of loan migrations into the substandard category, as well as \$11.3 million of loan payoffs, partially offset by certain loan migrations into special mention.

Allowance for Loan Losses. The allowance for loan losses is maintained at a level which, in management’s judgment, is adequate to absorb probable credit losses inherent in the loan portfolio. The amount of the allowance is based on management’s evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, and economic conditions. Allowances for loans that are individually classified as impaired are generally determined based on collateral values or the present value of estimated cash flows. Because of uncertainties associated with national and regional economic conditions, collateral values, and future cash flows on impaired loans, including as a result of the COVID-19 pandemic, it is reasonably possible that management’s estimate of probable credit losses inherent in the loan portfolio and the related allowance may change materially in the near-term. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by full and partial charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan losses. Management’s periodic evaluation of the adequacy of the allowance is based on various factors, including, but not limited to, historical loss experience, current economic conditions, delinquency statistics, geographic and industry concentrations, the adequacy of the underlying collateral, the financial strength of the borrower, results of internal loan reviews and other qualitative and quantitative factors which could affect potential credit losses.

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In addition, the New York State Department of Financial Services (the “NYSDFS”) and the Federal Deposit Insurance Corporation periodically review our allowance for loan losses and as a result of such reviews, we may have to materially adjust our allowance for loan losses or recognize further loan charge-offs.

The following table sets forth activity in our allowance for loan losses for the periods indicated.

	At or for the Nine Months Ended March 31,	
	2022	2021
	(Dollars in thousands)	
Allowance at beginning of period	\$ 23,259	\$ 22,851
Provision for loan losses	250	3,550
Charge offs:		
Commercial real estate	112	—
Commercial and industrial	417	2,386
Commercial construction	—	769
One- to four-family residential real estate	354	108
Home equity loans and lines of credit	40	51
Consumer	107	160
Total charge-offs	1,030	3,474
Recoveries:		
Commercial real estate	—	—
Commercial and industrial	26	130
Commercial construction	18	—
One- to four-family residential real estate	37	—
Home equity loans and lines of credit	—	—
Consumer	15	30
Total recoveries	96	160
Net charge-offs	934	3,314
Allowance at end of period	\$ 22,575	\$ 23,087
Allowance to non-performing loans	140.01 %	105.30 %
Allowance to total loans outstanding at the end of the period	2.29 %	1.99 %
Net charge-offs to average loans outstanding during the period	0.12 % ⁽¹⁾	0.39 % ⁽¹⁾

(1) Annualized.

Net charge-offs for the nine months ended March 31, 2022 included the charge-off of one commercial and industrial loan totaling \$380,000 that was in the specific reserve allocation as of June 30, 2021.

Loan Deferrals Related to COVID-19 Pandemic. The direct and indirect effects of the COVID-19 pandemic have resulted in dramatic reductions in the level of economic activity in the Company's market area, as well as in the national and global economies and financial markets, and have severely hampered the ability for certain businesses and consumers to meet their current repayment obligations.

As of March 31, 2022, the Company had no commercial loan COVID-19 related financial hardship payment deferrals. As of March 31, 2022, the Company had COVID-19 related financial hardship payment deferrals to its consumer borrowers totaling two loans representing \$699,000 of the Company's residential mortgage, home equity loans and lines of credit, and consumer loan balances. There are borrowers continuing to experience COVID-19 related financial hardships.

Liquidity and Capital Resources

Liquidity. Liquidity describes our ability to meet the financial obligations that arise in the ordinary course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of our customers and to fund current and planned expenditures. Our primary sources of funds are deposits, principal and interest payments on loans and securities, and proceeds from calls, maturities and sales of securities. We also have the ability to borrow from the Federal Home Loan Bank of New York. At March 31, 2022, we had the ability to borrow up to \$338.7 million, of which none was utilized for borrowings and \$102.0 million was utilized as collateral for letters of credit issued to secure municipal deposits. At March 31, 2022, we also had a \$20.0 million unsecured line of credit with a correspondent bank with no outstanding balance. We cannot predict what the impact of the events described in "Recent Developments – COVID-19 Pandemic and Mann Entities Related Fraudulent Activity" above may have on our Liquidity and Capital Resources beyond the third quarter of fiscal 2022.

The board of directors is responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs and deposit withdrawals of our customers as well as unanticipated contingencies. We believe that we had enough sources of liquidity to satisfy our short and long-term liquidity needs as of March 31, 2022.

While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition. Our most liquid assets are cash and cash equivalents. The levels of these assets are dependent on our operating, financing, lending and investing activities during any period. At March 31, 2022, cash and cash equivalents totaled \$464.8 million. Securities classified as available-for-sale, which provide additional sources of liquidity, totaled \$417.7 million at March 31, 2022.

We are committed to maintaining a strong liquidity position. We monitor our liquidity position on a daily basis. We anticipate that we will have sufficient funds to meet our current funding commitments. Certificates of deposit due within one year of March 31, 2022 totaled \$56.8 million, or 3.32%, of total deposits. If these deposits do not remain with us, we will be required to seek other sources of funds, including other deposits and Federal Home Loan Bank of New York advances. Depending on market conditions, we may be required to pay higher rates on such deposits or borrowings than we currently pay. We believe, however, based on past experience that a significant portion of such deposits will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Capital Resources. We are subject to various regulatory capital requirements administered by NYSDFS and the Federal Deposit Insurance Corporation. At March 31, 2022, we exceeded all applicable regulatory capital requirements, and were considered "well capitalized" under regulatory guidelines.

The Bank and Pioneer Commercial Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, banks must meet specific capital guidelines that involve quantitative measures of the bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgements by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank and Pioneer Commercial Bank to maintain minimum capital amounts and ratios (set forth in the table below) of Tier 1 capital (as defined in the regulations) to average assets (as defined), and common equity Tier 1, Tier 1 and total capital (as defined) to risk-weighted assets (as defined). Under Basel III rules, banks must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios in order to avoid limitations on distributions and certain discretionary bonus payments to executive officers. The required capital conservation buffer is 2.50%.

As a result of the Economic Growth, Regulatory Relief, and Consumer Protection Act, the federal banking agencies developed a "Community Bank Leverage Ratio" (the ratio of a bank's tier 1 capital to average total consolidated assets) for financial institutions with assets of less than \$10 billion. A "qualifying community bank" that exceeds this ratio will be deemed to be in compliance with all other capital and leverage requirements, including the capital requirements to be considered "well capitalized" under Prompt Corrective Action statutes. The federal banking agencies may consider a financial institution's risk profile when evaluating whether it qualifies as a community bank for purposes of the capital ratio requirement. The federal banking agencies have set the Community Bank Leverage Ratio at 9%. A financial institution can elect to be subject to this new definition. The Bank and Pioneer Commercial Bank did not elect to become subject to the Community Bank Leverage Ratio as of March 31, 2022.

As of March 31, 2022, the Bank and Pioneer Commercial Bank met all capital adequacy requirements to which they were subject. Further, the most recent FDIC notification categorized the Bank and Pioneer Commercial Bank as well capitalized institutions under the prompt corrective action regulations. There have been no conditions or events since the notification that management believes have changed the Bank's or Pioneer Commercial Bank's capital classification.

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The actual capital amounts and ratios for the Bank and Pioneer Commercial Bank are presented in the following tables (dollars in thousands):

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>For Capital Adequacy Purposes with Capital Buffer</u>		<u>To be Well Capitalized Under Prompt Corrective Action</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
Pioneer Bank:								
As of March 31, 2022								
Tier 1 (leverage) capital	\$ 183,306	9.61 %	\$ 76,336	4.00 %	N/A	N/A	\$ 95,420	5.00 %
Risk-based capital								
Common Tier 1	\$ 183,306	18.36 %	\$ 44,924	4.50 %	\$ 69,881	7.00 %	\$ 64,890	6.50 %
Tier 1	\$ 183,306	18.36 %	\$ 59,898	6.00 %	\$ 84,856	8.50 %	\$ 79,864	8.00 %
Total	\$ 195,909	19.62 %	\$ 79,864	8.00 %	\$ 104,822	10.50 %	\$ 99,830	10.00 %
As of June 30, 2021								
Tier 1 (leverage) capital	\$ 177,269	10.00 %	\$ 70,894	4.00 %	N/A	N/A	\$ 88,617	5.00 %
Risk-based capital								
Common Tier 1	\$ 177,269	16.82 %	\$ 47,422	4.50 %	\$ 73,768	7.00 %	\$ 68,499	6.50 %
Tier 1	\$ 177,269	16.82 %	\$ 63,230	6.00 %	\$ 89,576	8.50 %	\$ 84,307	8.00 %
Total	\$ 190,566	18.08 %	\$ 84,307	8.00 %	\$ 110,652	10.50 %	\$ 105,383	10.00 %
Pioneer Commercial Bank:								
As of March 31, 2022								
Tier 1 (leverage) capital	\$ 33,743	6.60 %	\$ 20,441	4.00 %	N/A	N/A	\$ 25,551	5.00 %
Risk-based capital								
Common Tier 1	\$ 33,743	32.01 %	\$ 4,743	4.50 %	\$ 7,378	7.00 %	\$ 6,851	6.50 %
Tier 1	\$ 33,743	32.01 %	\$ 6,324	6.00 %	\$ 8,959	8.50 %	\$ 8,432	8.00 %
Total	\$ 33,743	32.01 %	\$ 8,432	8.00 %	\$ 11,067	10.50 %	\$ 10,540	10.00 %
As of June 30, 2021								
Tier 1 (leverage) capital	\$ 30,966	7.53 %	\$ 16,442	4.00 %	N/A	N/A	\$ 20,553	5.00 %
Risk-based capital								
Common Tier 1	\$ 30,966	37.65 %	\$ 3,702	4.50 %	\$ 5,758	7.00 %	\$ 5,347	6.50 %
Tier 1	\$ 30,966	37.65 %	\$ 4,935	6.00 %	\$ 6,992	8.50 %	\$ 6,580	8.00 %
Total	\$ 30,966	37.65 %	\$ 6,580	8.00 %	\$ 8,637	10.50 %	\$ 8,226	10.00 %

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Off-Balance Sheet Arrangements. We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. The financial instruments include commitments to originate loans, unused lines of credit and standby letters of credit, which involve elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of condition. Our exposure to credit loss is represented by the contractual amount of the instruments. We use the same credit policies in making commitments as we do for on-balance sheet instruments.

At March 31, 2022, we had \$251.8 million of commitments to originate or purchase loans, comprised of \$171.9 million of commitments under commercial loans and lines of credit (including \$49.5 million of unadvanced portions of commercial construction loans), \$58.1 million of commitments under home equity loans and lines of credit, \$14.3 million of commitments to purchase one- to four-family residential real estate loans and \$7.6 million of unfunded commitments under consumer lines of credit. In addition, at March 31, 2022, the Company had \$28.5 million in standby letters of credit outstanding.

Contractual Obligations. In the ordinary course of our operations, we enter into certain contractual obligations. Such obligations include data processing services, operating leases for premises and equipment, agreements with respect to borrowed funds and deposit liabilities.

Impact of Inflation and Changing Prices

Our consolidated financial statements and related notes have been prepared in accordance with GAAP. GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without consideration for changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than the effects of inflation.

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

A smaller reporting company is not required to provide the information relating to this item.

Item 4 – Controls and Procedures

Disclosure controls and procedures are the controls and other procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities and Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. As of March 31, 2022, the Company’s management, including the Company’s Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), has evaluated the effectiveness of the Company’s disclosure controls and procedures as defined in Rules 13a-15 and 15d-15(e) under the Exchange Act. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company’s disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter

how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must necessarily reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

There has been no change in the Company's internal control over financial reporting during the third quarter of the fiscal year ended June 30, 2022 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

Certain legal proceedings in which we are involved are discussed in “Item 1–Consolidated Financial Statements–Note 10 – Commitments and Contingent Liabilities.”

Item 1A – Risk Factors

There have been no material changes to the risk factors set forth under Item 1.A. Risk Factors as set forth in the Company's Annual Report on Form 10-K for the year ended June 30, 2021 (“Form 10-K”). Further, to the extent that any of the information contained in this Quarterly Report on Form 10-Q constitutes forward-looking statements, the risk factors set forth in the Form 10-K also are a cautionary statement identifying important factors that could cause our actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of us.

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3 – Defaults Upon Senior Securities

None

Item 4 – Mine Safety Disclosures

Not applicable

Item 5 – Other Information

None

Item 6 – Exhibits

Exhibit No.	Description
31.1	Rule 13a-14(a) / 15d-14(a) Certification of the Chief Executive Officer
31.2	Rule 13a-14(a) / 15d-14(a) Certification of the Chief Financial Officer
32	Section 1350 Certification of the Chief Executive Officer and Chief Financial Officer
101	The following materials from Pioneer Bancorp, Inc. Form 10-Q for the three and nine months ended March 31, 2022, formatted in Extensible Business Reporting Language (Inline XBRL): (i) the Consolidated Statements of Condition, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive (Loss) Income, (iv) the Consolidated Statements of Changes in Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) related notes.
104	Cover Page Interactive Data File (embedded in the cover page formatted in Inline XBRL)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PIONEER BANCORP, INC.

(registrant)

May 11, 2022

/s/ Thomas L. Amell

Thomas L. Amell

President and Chief Executive Officer

May 11, 2022

/s/ Patrick J. Hughes

Patrick J. Hughes

Executive Vice President and Chief Financial Officer

EXHIBIT 31.1: Rule 13a-14(a) / 15d-14(a) Certification of the Chief Executive Officer

Certification of Chief Executive Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Thomas L. Amell, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pioneer Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 11, 2022

/s/ Thomas L. Amell

Thomas L. Amell

President and Chief Executive Officer

EXHIBIT 31.2: Rule 13a-14(a) / 15d-14(a) Certification of the Chief Financial Officer

Certification of Chief Financial Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Patrick J. Hughes, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pioneer Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 11, 2022

/s/ Patrick J. Hughes

Patrick J. Hughes

Executive Vice President and Chief Financial Officer

EXHIBIT 32: Section 1350 Certification of the Chief Executive Officer and Chief Financial Officer

Certification pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Pioneer Bancorp, Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2022 as filed with the Securities and Exchange Commission (the “Report”), the undersigned hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

The purpose of this statement is solely to comply with Title 18, Chapter 63, Section 1350 of the United States Code, as amended by Section 906 of the Sarbanes-Oxley Act of 2002.

May 11, 2022

/s/ Thomas L. Amell

Thomas L. Amell

President and Chief Executive Officer

May 11, 2022

/s/ Patrick J. Hughes

Patrick J. Hughes

Executive Vice President and Chief Financial Officer
